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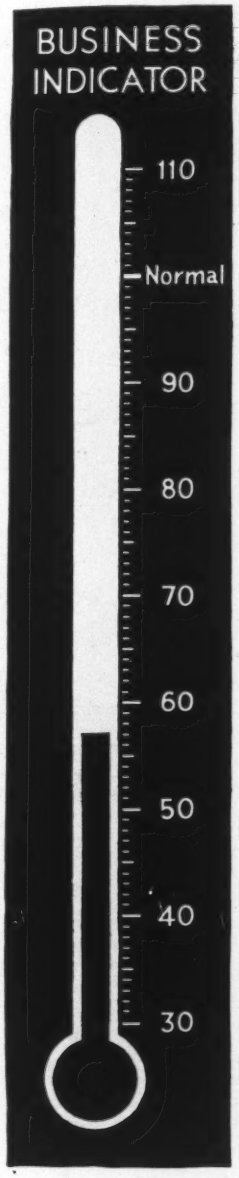
MAY 4, 1932

THE BUSINESS WEEK:



We have reached the stage of our difficulties where we cannot afford to be ungrateful for small favors . . . . Despite the doubts and discouragements about certain fundamental features of the situation, particularly as regards official and legislative attitudes toward the problem of recovery, April afforded some evidence of inherent economic vitality and convalescence . . . . The decline in important business indicators and in commodity prices slackened and in some cases ceased . . . . Merchandise carloadings have risen moderately, and as the month closes steel production is slowly expanding under the stimulus of increased activity in the automobile industry, which is expected to continue for several months . . . . More significant are the first signs that Federal Reserve efforts to start credit expansion are beginning to take effect . . . . Although contraction continued in the out-of-town banks, loans and investments of the New York member banks last week showed an important and unexpectedly prompt response to open-market operations of the Reserve authorities for the first time since last September, including even an upturn in commercial loans . . . . Reduction of money rates in foreign centers also reflects further easing of financial tension . . . . If this tendency continues it will be an encouraging indication that the stormy winter is past and spring not far behind . . . . At this jittery juncture it would be most helpful if Congress could put aside its stock-market muck-rake and begin to do some spring plowing for the crop of constructive measures that will be much needed before the harvest moon, no matter who is elected.

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And in industry, control *must* be good if maximum profits are to be realized. Not only does accurate control assure uniformity of product with minimum production costs, but also it offers protection to production equipment which often represents enormous capital investment. It is sound management policy to insist that *Tycos* equipment be specified for this service. *Tycos* Control Equipment in your plant is your assurance of economical production and adequate profits.

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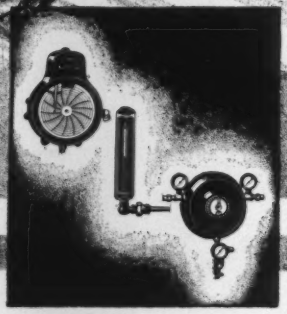

Tycos TEMPERATURE INSTRUMENTS—

INDICATING RECORDING CONTROLLING

THE BUSINESS WEEK (with which is combined The Magazine of Business) May 4, 1932. No. 139. Published weekly by McGraw-Hill Publishing Company, Inc., 330 West 42d Street, New York, N.Y. James H. McGraw, Chairman of the Board; Malcolm Muir, President; James H. McGraw, Jr., Vice-President & Treasurer; C. H. Thompson, Secretary. $7.50 per year, in U.S.A. and possessions; $10.00 or £2.10s. per year in all foreign countries. 20c. per copy. Entered as second-class matter February 15, 1930, at the Post Office at New York, N.Y., under the act of March 3, 1879. Printed in U.S.A.

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Bus Adm

This Business Week:

Washington

No one denies there are wolves in those Wall St. woods, but with the Administration trying to calm panicky securities markets, this is no time for Congress to yell "Wolf!" *(p. 5)*

Congress has written tariffs into the tax bill which take no account of changed world trade. *(p. 6)*

Motors

Ford production has a faster pick-up than expected; meanwhile, Detroit anticipates competition: 2 gadgetless cars at bottom prices. *(p. 8)*

Marketing

Part 2 of *The Business Week's* study of the American consumer takes up the increasing importance of *services* in individual buying and the effect on the sale of *goods*. *(p. 19)*

Vital statistics of the drug store—the general store of the present day—are now available. *(p. 9)*

Retailers who expect to stay in business by making the necessary profit are turning to higher quality. *(p. 12)*

Two new members of the General Foods family take advantage of an old flavor and an excess production capacity. *(p. 10)* American lamp makers will meet annoying foreign competition with a 10¢ electric bulb. *(p. 8)* Sears, Roebuck is going in for centralized management; Montgomery Ward for regional, close-to-local market control. *(p. 8)* Times are so bad, even cigarette sales are off. *(p. 10)*

Oil

Gasoline prices are up; the petroleum makers are apparently determined to remain the only major industry able to resist further price deflation this year. *(p. 14)*

Wages

It isn't the percentage of the cuts that counts, but what's actually in the envelope. Regardless of their spokesmen, the figures speak for themselves. *(p. 20)*

The pay-as-you-sell plan works out fairly for both employer and employee. *(p. 22)*

Politicians will have the unemployed to consider, judging by Seattle where they elected a new city government. *(p. 22)* New York, last stand of pre-depression building wages, is on the verge. *(p. 21)* War gardens are being planned to keep idle workers busy, cupboards full. *(p. 23)*

Finance

Writing down book values of fixed assets aids profits by decreasing depreciation charges, benefits stockholders by stimulation of demand for securities. *(p. 24)*

Corporations which have bought up their own stock are, for the most part, sorry, although some of them had good reasons. *(p. 24)*

Something new in banking is the creation, in Massachusetts, of "reserve systems" for the savings banks and building-loan cooperatives. *(p. 27)*

Investment trusts have changed their minds on stocks suitable for the portfolio. *(p. 26)* Building and loan associations are being helped by the R.F.C. *(p. 26)*

Taxes

The "high cost of city government," when examined closely, is not so high. Actual operation accounts for only 4.7%; the balance goes for education, protection, and permanent improvements. *(p. 28)*

Transport

A freight subway, with underground freight yard facilities, eliminates much trucking through the streets, makes possible a new industrial development in the heart of St. Louis. *(p. 16)*

Railroads are pushing their plans to regain lost freight with store-door service, new containers, and compartment cars. *(p. 16)*

Foreign

Hitler's eventual control of the Prussian Diet is admitted; it is only a question of what concessions he must make to gain sufficient support. Those of his radical policies which haven't already been borrowed by Bruening seem less disturbing now. *(p. 29)*

The French "speak-easy" tariff, by its discriminating quotas, is likely to compel a new American attitude toward foreign trade. *(p. 31)*

Britain, despite recent revision of the tariff, will wait until after the Ottawa conference before making any drastic decisions. *(p. 32)*

Last-minute cables hold no very cheerful news from abroad. Britain is still dazed by taxes; French disintegration continues; Germany falters; Japan is heaping up future trouble in the Far East. *(Survey, p. 34)*

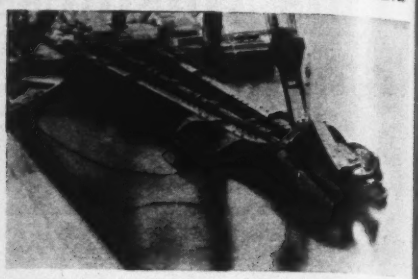
Figures

Steady gain in miscellaneous and l.c.l. freight, sharp improvement in public works and utility contracts, and the first expansion of commercial loans in months, are items of cheer in otherwise cheerless statistics. *(p. 40)*

In this issue:

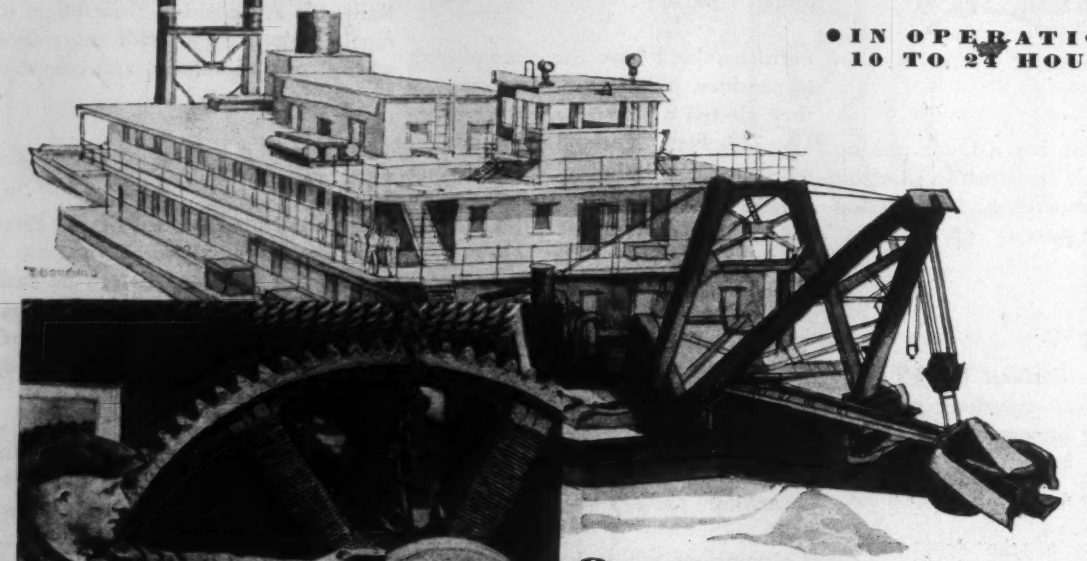
"Goods *vs.* Services," Part 2 of The American Consumer Market

Close-up of cutter-head on government dredge "C. B. Harris"



8 YEARS
OF GOUGING OUT RIVER BOTTOMS

• IN OPERATION FROM 10 TO 24 HOURS DAILY



ONE OF THE *TOUGHEST* BEARING JOBS IN THE WORLD

No place for bearings that lack backbone...a river dredge. Not when they are used on the giant gears and shafts of cutter heads that burrow into everything from ooze to solid rock. Not when they are used on the great pumps that pick up this mass of material and convey it. So the United States Government does the usual thing where a tough bearing job is encountered. It forgets price... and selects SKF.

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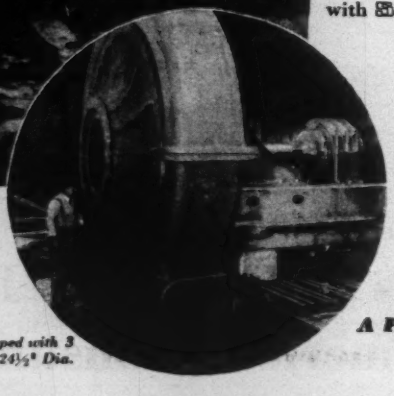


SKF Bearing on intermediate gear of cutter head drive of "C. B. Harris"

SKF
BALL & ROLLER BEARINGS

2859

Main Pump equipped with 3 SKF Bearings 24½" Dia.

A PROMISE IS ONLY A PROMISE ...PERFORMANCE IS HISTORY

THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending April 30, 1930

Heaving Bricks at Wall Street Good Politics—Poor Business

Administration tries to restore confidence in securities markets—Congress tears it down

RADICAL members of Congress are disappointed at the results of the drive against Wall Street. The investigations have uncovered practices which do not look good in the brutal daylight, but the excitement was dulled by a pretty general knowledge that such things went on. More sensational sins must be displayed before the Wall Street disclosures produce the political dividends that were hoped for it.

To our most clamant group of lawmakers, the mention of Wall Street has the same galvanic effect as the ancient war cry of "Rinehart" to a Harvard freshman. There is nothing to restrain the brick-throwers. With constituents sore and out of work, the approaching campaign offers an irresistible temptation for politicians to raise the clans against the money kings. While the first disclosures have not been sufficiently noisome for the purpose, they have opened scents and trails promisingly pungent. These are being assiduously followed in the hope that they will lead to major revelations.

Just Like Politics

Wall Street is no hotbed of virtue. Like politics, it has its stratagems and spoils. It is not nice for executives of large concerns having knowledge of secret weaknesses or knowing of pending actions, to take advantage of that knowledge to their own gain but the loss of other stockholders. It is not sweet for gentlemen banded together for the boosting or depression of certain stocks to bribe financial writers and otherwise ballyhoo an unsuspecting public. Such things do happen.

Nobody denies that Wall Street could be improved. The only question is: Should drastic action be taken at this time? The Administration, through the Reconstruction Finance Corp. and every other agency, is trying to restore confidence in securities. An attack upon the bankers and brokers of Wall Street has the opposite effect. The doctors have a pneumonia patient on their hands. One set is trying to keep him breathing while an opposing delegation is exploring his vitals, demanding a major operation.

The problem adds to the difficulties of President Hoover's situation. He is faced with the tremendous task of restoring confidence. Yet it is known that he is irked by bear traders who have aggravated the evils of deflation.

All sorts of restrictive legislation have been proposed. With fire in his eye, Senator Brookhart told a representative of *The Business Week* that before Congress adjourned there would be a law which would put an investment banker in the penitentiary for pegging the price of a security on the Stock Exchange while unloading it upon the public. Administration leaders laugh off that possibility. Disclosures of sensational wrong-doing might produce such legislation. Otherwise, little if any change can be expected.

The feeling that something ought to be done about short selling has not developed enough power to promise Congressional action. The radicals are more interested in preventing manufactured bull markets with consequent loss to investors, than in preventing short sales. Richard Whitney, president of the New York Stock Exchange, seems to have proved his case for short sales as a bumper for falling markets.

For an Emergency Brake

One of the Administration financial authorities admits that normally short sales help balance the market. But he would like to see them prohibited when emergencies warrant. He has told the President that in times like these, the evils outweigh the benefits. Admitting that theoretically bear covering prevents excessive price slumps, actually he thinks that in such markets as the present, the public turns bear, forces prices

What to Watch

These figures will be first to reflect the effects of the administration's war on depression. Encouraging changes are marked with a ★ (see page 6 for details)

Indicators	*1932*	*% Change in a Week*	*% Change in a Month*
These should be earliest to show progress:			
Money in Circulation	Apr. 27	—0.05★	—0.7★
90 Stocks (Standard Statistics)	Apr. 28	—3.4	—20.3
40 Bonds (Dow Jones)	Apr. 28	—0.7	—4.7
Brokers' Loans	Apr. 27	—1.8	—5.7
Member Bank Borrowings from Federal Reserve (Bills Discounted)	Apr. 27	—5.8★	—16.0★
Federal Reserve Open Market Policy (Holdings of Government Securities and Acceptances)	Apr. 27	+9.8★	+31.9★
Bank Suspensions — Number	Apr. 21e	+22.2	+22.2
U. S. Gold Stock	Apr. 27	—0.2	—0.5
Member Bank Reserves	Apr. 27	+6.8★	+10.6★
These signs should follow promptly:			
Total Loans and Investments of N.Y.C. Reporting Member Banks	Apr. 27	—0.7	—0.2
Fisher's Wholesale Price Index	Apr. 22e	—1.0	—2.1
The Business Week Index	Apr. 23e	—2.7	+0.4★
Employment — Manufacturing (89 industries)	March	.....	—1.7

e—Week Ending

The Business Week

lower, is wiped out when the market turns upward.

From present indications, Washington believes that legislation will be prevented or softened by changes in Stock Exchange rules. Such changes may (1) prohibit commission houses from participating in syndicates for security sales, thus removing the temptation of foisting unsound securities on their traders; (2) prohibit, after a certain date, commission houses from trading for their own account, to lessen risks of such houses' going sour and using customers' securities for house deals; (3) restrict specialists from the use of information of bids on their stocks, particularly the use of such information by pools.

Critical Indicators Point Toward Credit Expansion

"WHAT TO WATCH" indicators this week show increasing presure by the Federal Reserve banks toward credit expansion, but a somewhat less promising response by the member banks than the preceding week's figures revealed. In general, however, the figures show further improvement in the banking situation, and indicate that a basis for expansion is being laid.

Currency in circulation showed a further decline. This is making for increased liquidity of the member banks, but is somewhat disappointing from a business point of view because it probably reflects unseasonal slackness in retail trade.

Open-market purchases of government securities by the Federal Reserve banks, considerably larger than in any week so far in the current campaign for credit expansion, brought about a large increase in member bank reserves and further decline in their borrowings from the Reserve banks. This was supported by the decline in currency in circulation, and more than offset the gold export for the week.

Judging by the statement of the New York member banks the only effect of these Federal Reserve operations this week was a large increase in their time and demand deposits and furthr reduction in indebtedness to the Reserve Banks. Total loans and investments declined somewhat, after the encouraging increase in the week before. Some government securities were bought by the New York member banks, but holdings of other securities and commercial loans fell off.

Indications are that out-of-town banks are still contracting credit, but it will not be possible to tell this till the figures for all reporting member banks for this week are available. In spite of this tendency, the piling up of deposits in the New York member banks is encouraging. This would normally be a forerunner of steady increase in loans and investments as money rates ease in the New York money market and excess funds begin to be diffused out through the country.

It's Schedules, Not Policies, That Interest the Tariff-Makers

Debate over inclusion of new duties in the tax bill has no relevance to world trade situation

THE action of the Senate Finance Committee in approving duties on coal, oil and copper—but not on lumber, shingles and wood pulp—indicates a very fair chance of the first 3 commodities' finding the protection they seek under cover what is supposed to be a tax bill. It indicates less than nothing as to the formulation of an intelligent tariff policy in the light of what may be academically described as "recent economic changes."

The House started something when it added 15 import duties to the tax bill but neither it nor the Senate has had any intention of starting a broad discussion of tariff policy, even if that is one of the 3 or 4 broad discussions the world most needs. In none of the arguments for the new duties can be found any suggestion of an answer to the new French import quotas (page 31), the new tariff situation in Great Britain (page 32), the emergence of a bargaining principle in international trade; or any recognition of fundamentals.

While some attention has been paid to these matters in the Democratic tariff bill finally enacted this week no one in politics takes that measure very seriously, sound though its principles may be. It was introduced as a substitute

Wide World

"AL CAPONE IS A PIKER"—*Matthew C. Brush told the Senate Committee some stock market pools outdo any gang racket. "Nobody is there for his health." As to the public's role, "It really is pathetic."*

Keystone

"RIGGING? WHAT DO YOU MEAN?"—*Richard Whitney, president of the Stock Exchange, denied knowledge of dark doings among his constituents. presented a mountain of statistics for the Senate bear hunters to climb*

for a general tariff revision to pacify party die-hards who became embarassingly clamorous about Democratic tariff traditions when the party assumed legislative control last fall. Furthermore, it carries provisions that practically guarantee a presidential veto.

Senators fighting the inclusion of tariff proposals in the tax bill have not given up hope and a heavy blow was struck at the strength of the tariff bloc when the lumber, shingle, and pulp schedule was defeated in committee. Opponents of these schedules are the most potent of all the groups working against the tariff proposals. They are chiefly interests which own forests and mills in Canada, which sold $151,264,316 worth of wood and paper to the United States in 1931. They have used effectively a mild threat by Canada that, if the proposed duties hitting Canadian imports are imposed, the Dominion will rescind part or all of the Order in Council of Feb. 27, 1931, banning certain products of Soviet Russia, including some which she now buys in the United States—for instance, coal.

Coal Interests Alarmed

This prospect alarms the coal people who are also concerned about the possibility of Canada's giving a preferential position to British coal, especially Welsh anthracite. But the coal tariff battalions go marching on in the face of the fact that in 1931 Canada sold us only $1.9 millions of coal against U. S. sales to the Dominion of $38 millions of bituminous, $15 millions of anthracite. They are goaded by Pennsylvania's fear of this Welsh anthracite, though all the anthracite we imported in 1931 ($4,143,000) amounted to less than a third of what we sold to Canada.

The men behind the oil tariff have had easier going. Most of the fight was taken out of the opposition by the sale of Pan-American Petroleum's foreign properties to Standard Oil of New Jersey (*BW—Apr27'32*). Pan-American representatives in Washington had been particularly active against the tariff. Standard of New Jersey has a big foreign oil business and is expected to market most of Pan-American's Mexican, Venezuelan and Colombian production abroad.

Copper Fight Looks Easy

Domestic copper producers are equally active on their sector. Less argument is made against the copper schedule than against any of the others. There is a very general fear that low-cost mines in Africa will put American copper miners—such as are still working—out of their jobs. Moreover, the copper industry in this country is more spectacularly prostrate than most.

Meanwhile, a sugar tariff battle is raging before the Tariff Commission with the sugar refineries along the Atlantic Coast up in arms to obtain a larger differential on refined sugar. They were not much interested 2 years ago—when sugar prices were considerably higher—and, as a consequence, the present differential is only 12¢ a hundred—$2 on raw, $2.12 on refined.

As it takes 107 lbs. of raw sugar to make 100 lbs. of refined the duty actually sets up an initial differential of 2¢ a hundred against them, entirely aside from any question of lower wages in the Cuban refineries. Moreover, the Suchar Process Co., employing the new activated carbon process as against the old bone char process in use in American refineries, is playing hob with them, they tell the Tariff Commission. To which they add that they would like a rate of $2.32 on refined imports. And to which opposing interests, including large sugar users, add that the American refineries are doing pretty well as is.

To all the criticism that there is no connection between these separate engagements on the tariff front, indicating a complete lack of interest in fundamental tariff policy, there should be one reservation. As in all tariff fights, log-rolling supplies a liaison service. As it goes on, it is likely to bring more tariff proposals actively into the picture. And it is certain to add to the delay and the public distrust. Which is the danger in the whole situation.

The Baby Bonds Never Really Grew Up

THE baby bond campaign is all washed up. Opened on the front pages of the newspapers in a glare of publicity, it closed in the back office of the Treasury in an atmosphere of mystery. Sales are somewhat vaguely reported as "slightly in excess of $30 millions." Buyers are identified even more vaguely. No one contends that hoarders adopted any considerable percentage of the "babies" and commentators recall that it would have taken a fairly brazen hoarder to apply for them at the banks as the campaign set-up required. If banks bought more than a small amount, the Treasury will confess its surprise; it "very carefully scrutinized all sales" to prevent just that.

Mr. Mills, who never was an enthusiastic baby bond salesman—he thought the "babies" might pull more money out of the banks—says that the government's books were kept open for this sale for a longer period than normal. Leaders of Colonel Knox's anti-hoarding drive say its "psychological effect" was highly satisfactory. But almost everybody once interested seems to be satisfied that the less said the better.

Ford Licks Production Problem But May Face New Competition

Detroit, relieved by progress on both models, hears of 2 other cars built to ride under his prices

AUTOMOBILE parts manufacturers have definite reports that within a month or so 2 new cars, priced below present Ford levels, will be offered to the public: one by an organization with enormous resources already well into the small car field; the other by a smaller but highly aggressive competitor in that market.

While no details are available, both new cars are expected to be 6-cylinder jobs without frills or excess gadgets, stripped down to essentials to meet that widespread demand for the cheapest possible transportation.

Up to 1,000 a Day

Meanwhile, Ford has been making swift progress in producing V-8 engines. He seems to have overcome the production difficulties which have been delaying output, is expected to start next week with an output of 1,000 a day. Beginning at Edgewater, N. J., branch assembly plants are now producing V-8s and, with a supply of engines available from River Rouge, the goal of 50,000 cars in May is likely to be achieved. About 50,000 of the 4-cylinder engines have already been shipped to assembly plants. As these plants are also well supplied with other parts for this model it should quickly be in volume production.

Ford's first goal is the production of 500,000 V-8s as soon as possible to take care of orders already placed by buyers—who are becoming impatient at the delay in deliveries. It will probably be July or August before production reaches 100,000 cars a month, and early in the fall before this great backlog of advance orders can be cleaned up.

Model B Steps Out

The widely held opinion that Ford intended to keep the 4-cylinder model back-stage and not push it hard seems to have been wrong. It arose from the fact that little attention was given the Ford baby in announcements, that no Model B was put on display with the V-8, although it was known that ample supplies of engines, frames, bodies, and other parts were on hand to produce the 4-cylinder job since it was little changed mechanically from the old Model A. This week, however, branch plants have started active production of the 4, only a few days before they get started on the larger model, and apparently it will be pushed hard, particularly in view of the prospects of new competition.

As an added attraction to Ford buyers Detroit expects that more liberal financing terms will be offered—perhaps 2 years—to tap the pocketbooks of the greatly increased number of potential car buyers who, in 1932, might find it impossible to carry the monthly charges of $25 or more required to pay for a car within a single year. But it seems unlikely that any new terms will be made public until advance orders have been filled.

Ford production troubles have centered around the V-8 engine block. Cast in one piece, it is one of the most complicated casting jobs ever attempted and was declared quite impracticable by many foundry experts. Ford engineers have licked this problem as they have many similar ones in the past.

Electric Bulb at 10c To Battle Cheap Import

THE electrical industry has decided that the Japanese lamp invasion has gone far enough. On May 1, General Electric and Westinghouse will begin to market a metal filament electric light bulb to sell for 10¢, the price at which the Japanese import has been selling. The 10¢ bulbs carrying their trademarks have been built for a life of 500 hours, will be supplied with inside frosting and in colors, stocked by all Mazda dealers.

American manufacturers are seriously disturbed over the steady growth in the importation of Japanese metal filament incandescent lamps. After their years of cooperative research in building up lamp quality, lengthening lamp life, developing lamps for all kinds of purposes and bringing down lamp prices (now at the lowest point in electrical history), they find it a little hard that big chain buyers sometimes abandon them in favor of foreign competitors. What makes it harder is that the imported lamps carry such a trifling labor cost that they can climb a 20% ad valorem duty wall and still sell for less than American manufacturers must pay for raw materials.

Buyers are, of course, not under very good control. The steady increase in the number of wired homes has called for wider channels of lamp distribution. Where some years ago only electric light companies were selling bulbs, today every type of retailer—even the corner grocer—is handling them.

The imported lamp is a come-back. It played an important part in the market when tungsten filament lamps were first produced, then lost its hold as American lamp manufacturers developed and patented new types and improved manufacturing processes. In 1929 imports from all sources had sunk to a total of 4,491,000, a dollar value of $140,000, or about 3.11¢ a lamp.

Since 1929, however, many variety chains, anxious to extend their lines and improve volume, have been going into lamps, and their search for a lamp within their price range has sent them to the cheap import. In 1931 bulb imports, chiefly Japanese, amounted to 68½ million lamps, valued at $1,370,000, an increase over 1929 of more than 1,500% in numbers, nearly 1,000% in value. Average invoice value per lamp had dropped to 2¢.

Parcel Post Service May Include Pickup

EXPERIMENTAL parcel post pickup service is favored by the House Post Office Committee. A flat additional charge of 3¢ would be made for this service. The experiment was prompted by many requests that the Post Office Department inaugurate store-door collection of parcels. The department proposed a charge of 5¢ and is doubtful whether the new service can be furnished generally for the smaller fee, but will try it out if authorized by Congress.

Sears Centralizes, Ward Goes Regional

AFTER having tried out several other methods of sales supervision since it started its chain of 380-odd retail stores, Sears, Roebuck & Co. is going in for centralization. J. M. Barker, formerly in charge of the company's Eastern territory and now holding the newly created post of vice-president in charge of retail administration, will gather up the reins that have been held by separate

territorial managers in charge of sales, personnel, certain promotional activities, and merchandise distribution in the Philadelphia, Atlanta, Los Angeles, and Chicago divisions. All this, says the company, should produce better results.

Others are not so sure. Montgomery, Ward has just reorganized its sales administration to set up such regional divisions as its rival is abandoning—6 of them, each controlling 80-odd stores, 1 or 2 mail order warehouses (*BW—Mar30'32*). Executives of other national operating chains doubt whether a far-flung line of stores can be controlled from headquarters. Objections: With stores carrying a great variety of merchandise in so many price ranges, the earning of a profit through satisfactory mark-up and rapid turnover calls for a more intimate knowledge of local demand and buying habits than headquarters possesses and for more merchandising sagacity and experience than the average store manager brings to his job. Remedy: A regional manager wiser than the store manager, in closer touch than headquarters.

Those familiar with the mail order company's policies believe that further radical changes are in the offing. With the public moving away from mail order buying and the 5¢ to $1 chains moving in on the mail order store's field of fast-selling merchandise, there are signs that the latter may eventually become headquarters for organizations of salesmen and saleswomen doing door-to-door selling.

The success of Fuller Brush Co., Real Hosiery Co., and other concerns which carry on this kind of selling may point the way to the mail order houses. Some Sears' stores now offer employees commissions on orders obtained outside.

Continued sales declines furnish the impulse of mail order experimentation. Sears, Roebuck sales for the first 12 weeks of 1932 were 17.7% under the total for the same period of 1931, Montgomery Ward's 23%.

Acme

STOPPING SILICOSIS—*In rock drilling, compressed air blows the rock dust out of the hole. Silica dust, smaller than bacteria, eventually rots the lungs. The device being demonstrated here "vacuum-cleans" the hole, protecting the worker. The cost of installation is offset by increased drilling speed and sale of the collected silica dust which has several commercial uses; and the contractor need anticipate no compensation payments in states where silicosis is recognized as a compensable disease*

Survey Shows How Drug Stores Sell All the Things They Sell

It also shows why some of them fail to make any profit on some of the things they sell

No retailer has been subjected to so much pointing with pride and so much viewing with alarm as the druggist. His metamorphosis has been an outstanding phenomenon of American retailing, watched by his rivals with amazement, with some ribaldry, with envious respect. His methods have been vigorously attacked and stoutly defended. For neither the attack nor the defence have there been many figures available.

All that is going to be changed. Using 608 drug stores in St. Louis and over 200 more in the surrounding territory as "guinea pigs," the U. S. Department of Commerce, cooperating with 30 drug trade associations, has just completed a year-long laboratory study of the drug store business. Its merchandising operations have been placed under the microscope, its inventories, stock movements, expense accounts, sales totals analyzed. Time studies have put its employees on the spot. Industrial relations experts have X-rayed the contacts between drug manufacturer, wholesaler, and retailer. As a result of careful preliminary planning (*BW—Nov26'30*) the technique employed in the late great Louisville Grocery Survey has been refined to provide a new and improved model of approach, procedure, compilation, and summarization in large-scale merchandising survey.

Showdown on Price Cuts

Preliminary results are beginning to come out. Some of them were released in time for the National Drug Store Survey Conference which has just signalized the beginning of the broadcasting phase of the project. As was to be expected, early attention has been given to the much-debated practices of price-cutting and substitution. Since drug stores handle a class of products which have been subjected to the extreme development of these practices—frequently at the hands of druggists—the showdown should be of wide significance.

Now it can be told. The survey supplies considerable evidence to show that

cut-price sales on one item do not generally stimulate sales of the other items to which they are intended to lure customers, that advertising for a "sale" sells little except the low or no-profit article advertised, that reasonable reductions from known values will stimulate sales more than drastic price cuts.

Figures on substitution seem to prove that putting across a substitute not only breeds suspicion but costs so much in time and effort that it would pay better to supply the article demanded at a smaller margin of profit and use the time in cultivating a larger volume.

Detailed studies of the different items of cost entering into the handling of drug store merchandise produce interesting figures.

Timing the Sale

Stop-watch timing, covering all operations from the arrival of goods to their delivery into the consumer's hands, clocks the average drug store sale as follows: at the fountain, 72.7 seconds; of proprietary medicines, 122.6 seconds; of toilet preparations, 135.9 seconds; of a prescription, 395.3 seconds.

The cost of all the motions of making each typical sale works out to 1.6377¢ at the fountain, 3.9128¢ for proprietary medicines, 4.6333¢ for toilet articles, and 37.3568¢ for prescriptions.

Maintenance expenses formed 44.85% of the total cost of sales at the fountain, 34.63% on proprietary medicines, 60.91% on toilet articles, and 66.51% on prescriptions, but only 3.49% on tobacco.

Soda Fountains Fastest

Items sold at the fountains showed the fastest rate of turnover, 36.40 times annually, supplied over one-third of total annual sales, chalked up a handling cost of 35.13% against a 36.65% average for all departments.

Similarly exact data have been developed on practically every activity of every drug store department and all the various groups of merchandise ordinarily handled in a drug store.

With analogous information on wholesale operation already compiled and shortly to be published, manufacturers will, for the first time, know the actual cost of getting their goods through to the consumer, get some light on the effectiveness of their advertising, window display, and other sales effort.

Wholesalers will not only obtain a comprehensive analysis of their own operations, but, through the survey of retail stores, will be provided with a measuring stick wherewith to gauge the relative value of different types of outlets, the importance of various lines of goods, the desirability of adopting a policy of selective distribution in preference to the prevailing custom of general selling to all available outlets.

Manufacturers and wholesalers are particularly interested in the special study of the causes of failures among drug stores, the final report on which is already printed. Stressed: lack of care in selecting locations, higher rents than locations warranted, bad-debt losses, complete lack of keeping ordinary business records, and just plain absence of ordinary business ability. Suggested: that if wholesalers and manufacturers who extended credit to eventual failures had first studied their probable chances for success many would not have received credit, extensive economic losses would have been prevented.

Another important report already in print is getting special retailer attention. It deals with store arrangement, will guide druggists to a more compelling—hence, more profitable—handling of their window and store displays, a more skilful handling of their multitudinous merchandise.

Two More Products Pass The General Foods Tests

WITH extensive laboratory, packaging, eye-appeal, marketing and consumer-acceptance tests satisfactorily completed, General Foods Corp. adds 2 more numbers to its line of nationally distributed products.

Grape-Nuts, sole survivor of that first crop of breakfast foods which came in with a rush just before and soon after the turn of the century, have been consistent sellers, valuable profit-builders for retailers, wholesalers, and manufacturers. But their appeal in many quarters has been limited by the fact that it takes time to eat them—which was a sales point in days when the pace was slower and "fletcherizing" popular.

Confronted with this fact, General Foods set out to find a way of cashing in on the flavor without coming up against the handicap. Grape-Nuts Flakes are the result. As their name implies they represent the same ingredients turned into crisp flakes that present no hazards to late commuters. Their retail price is approximately a third less than that of the heavier parent product.

Uses Present Facilities

"Bliss" coffee is General Foods' second addition. It will retail for about two-thirds the cost of Maxwell House, the company's coffee leader. It represents the sagacious utilization of surplus facilities for vacuum packing, featured in Maxwell House, and the capitalization on a lower level of the popularity of this process of extracting the air from the coffee can to prevent loss of strength and impairment of flavor.

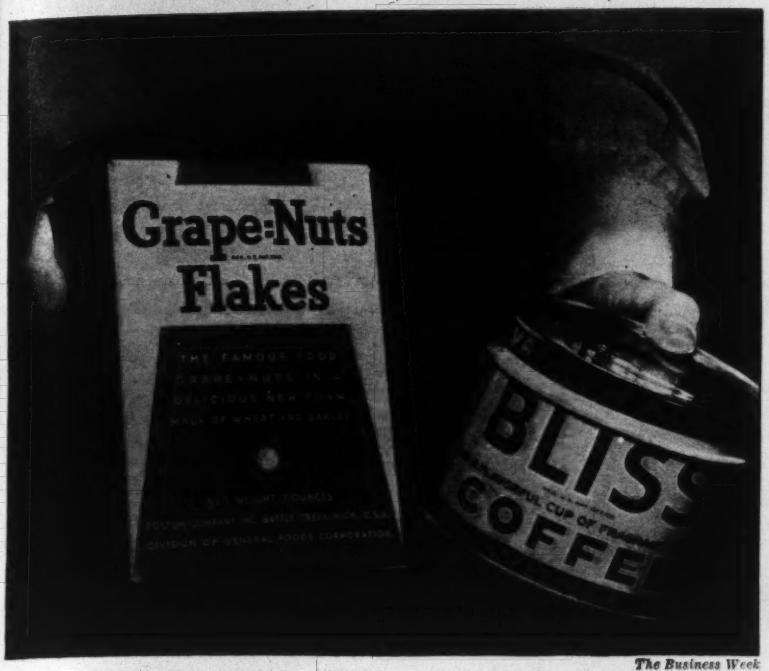
Before a General Foods product is scheduled for national distribution, extraordinary precautions have been taken to eliminate all possibility of its coming a cropper. After the laboratories comes the test of the company's Consumers Service Division, composed chiefly of women dietitians. Their approval, if given, sends it to a jury of several hundred housewives. Theirs releases it for the packaging studies whose decisions must be confirmed by shelf tests among competing products.

Finally test sales campaigns are conducted in various communities to determine the degree of consumer acceptance of product and packages. Frequently, after a product has been advertised and promoted in a community, it has been withdrawn to test its popularity as evidenced by continuing inquiries, requests, or insistent demands that it be restored to the shelves.

Cigarette Makers Fight Harder for Fewer Sales

CIGARETTE sales continue the decline started shortly after the June, 1931, increase in wholesale prices (*BW—Jul8 '31*). Government figures show that March brought payments on only 8,446 million small cigarettes in 1932 against 9,801 millions in 1931—a decline of 14%. For the first 9 months of the fiscal year beginning July 1, 1931, taxes were paid on 237,132 millions, compared with 264,667 millions for the corresponding period of the previous year—10.4% down.

Makers of 3 out of the 4 leading brands have issued optimistic state-



The Business Week

GENERAL FOODS' NEW FOODS—*To capitalize the popularity of vacuum-packed coffee in the lower price field: Bliss coffee. To satisfy a market for Grape-Nuts flavor in a fast-eating form: Grape-Nuts Flakes, in a new red-and-white package tested on the grocer's shelves*

ments implying that the drop in sales is chiefly affecting the makers of less widely advertised lines. The latter are sawing wood. Production on several brands selling at 10¢ (where no state taxes are imposed) has been multiplied. Some makers have reached back into cigarette history for the familiar lure of the premium coupon and the woven flag.

That rolling-your-own is still good for a ride is indicated by the fact that manufactured tobacco is the only item in the government tax report showing an increase both for March and for the 9-month period. Brown & Williamson, subsidiary of the British American Tobacco Co., with a cigarette-rolling machine to boost sales of Target cigarette tobacco, is also making a new drive on the ready-made business. Its Raleighs have been cut from $8 to $6.85 a thousand wholesale, now cost dealers the same as the big 4 brands and can be retailed for the same popular price. Its Wings cigarettes have been slashed from $6.40 to $4.75 a thousand wholesale to retail at 10¢ for a pack of 20 with an extensive advertising campaign to back them.

The Department Stores Prove Their Merchandising Mettle

DEPRESSION is the mother of ingenuity in department store merchandising. For instance—

Kresge Department Store at Newark (not affiliated with the Kresge chain) made the occasion of its 62nd anniversary sale an opportunity for a successful promotion scheme. Merchandise purchased for special sale during anniversary week was displayed with proposed sales prices to a jury of 50-odd women, recruited from 30 women's clubs in Newark and surrounding communities. Selling prices actually quoted and advertised were those that, in the judgment of these women, made each item a good value, and the fact that prices had been passed by this consumer jury was featured during the entire sale.

Public response was heavy, dollar volume exceeded that of the 1931 anniversary sale, while, due to lower price levels, the number of transactions was far ahead of last year's total.

James A. Hearn & Sons, New York department store, tried out a $1 "cash-and-carry sale." Customers who insisted on delivery of purchases were charged 15¢ for the service.

Scales Up, Costs Down

Well over 5,000 customers bought paper shopping bags in which to carry home their purchases. Where an ordinary dollar-day sale produces 10,000 packages for free delivery this event attracted only 200-odd who were willing to pay the 15¢ charge. Total sales volume was nearly double that of an average selling day. Hearn executives now are considering the advisability of adopting a general cash-and-carry policy.

L. Bamberger & Co., the R. H. Macy & Co. New Jersey affiliate, has installed a battery of loud speakers in its basement sales room. It finds that shoppers pay profitable attention to barked-out announcements of special bargains at this or that counter, is contemplating permanent adoption of this system for facilitating close-out, odd-lot, or special sales of limited quantities.

Employee Sales Drive Ties In the Dealers

EMPLOYEES in the factories, sales, and service organizations of Westinghouse Electric & Manufacturing Co. are giving an individual twist to a popular trend. Like employees in many other concerns they have organized themselves as salesmen-at-large for the products that provide them with a living. All 35,000 of them have been enlisted in a "Westinghouse Merchandising Campaign" in which each will try to sell at least one Westinghouse appliance during May. It will be the biggest employee sales drive on record.

The individual touch comes in a set-up designed not only to protect but to help dealers—who sometimes suffer from such campaigns. No Westinghouse manufacturing or distributing department or affiliate will make a single sale on the basis of an employee lead. Every order obtained by an employee-campaigner will be routed through an established Westinghouse appliance dealer to be filled at the regular retail price without either courtesy or quantity discounts.

The volunteer salesmen will ask no commissions. Divisional teams will compete for prizes; there will be awards for high-scoring individuals. The current issue of the company's house organ carries an insert appliance catalogue to stimulate their sales efforts.

Fight Against Trashy Goods Gains Recruits, Shows Results

Boston retailer's experiment indicates public is likely to welcome new policy

ORGANIZED effort is well under way to check the 2-year-old orgy of price competition, prevent complete surrender to cheapness of consumer goods, rebuild quality consciousness in buyer and seller, and restore sound principles of merchandising security in customer satisfaction.

Manufacturers of textile products, style merchandise, and apparel report definite progress through the newly-organized National Quality Maintenance League (*BW—Apr6'32*). They expect that many items of extremely low-grade materials will be discontinued entirely.

Retailers who are anxious to stay in business, maintain reputation, obtain a reasonable volume of sales, and make a profit, have been finding their problems increasingly difficult. In their normal range of stock they have been able to maintain their position only by continually trimming prices, lowering markup, adding new and cheaper lines with resulting drastic reductions in dollar volume but no correspondingly lower overhead expense. Furthermore their competition has grown steadily, because as wholesale prices dropped other retailers added new lines just to broaden their own opportunity for catching a larger slice of the consumer dollar. Ready availability of distress stocks, a flood of merchandise made cheaply from cheap goods, contributed to the continuing lowering of price levels.

Merchants Getting Nowhere

Merchants have found that they were getting nowhere, were moving a large quantity of merchandise at no net profit.

They propose to emphasize to their patrons that below a given level cheapness becomes uneconomical, actually constitutes a waste instead of a saving, that buying good quality goods at a fair price from responsible and well-established sellers is in the long run a money-saving policy.

Department stores have begun to vitalize the quality campaign by extensive newspaper and radio advertising and by ceasing to buy or sell trashy goods. They will force manufacturers to improve quality of materials and workmanship. Various trade papers, particularly in the textile and apparel field, have helped the campaign.

Dry Goods Men Help

Under the active leadership of its president, P. A. O'Connell, the National Retail Dry Goods Association, 4,000 members, is cooperating in the drive. President Paul S. Willis of the Associated Grocery Manufacturers of America has urged its members and others to buy at lowest prices only so long as "goods are up to strict quality specifications."

An experiment of E. T. Slattery Co., Boston, indicates favorable public reaction. Various departments of the store offered merchandise at prices slightly higher than the average for 1931. Each department offered a cash prize to the salesperson selling the largest amount of merchandise.

Remarkable results were obtained. In the millinery department the amount of an average sale was increased by $1.80, in the leather bag department by over $2.00, while women's and misses' coats averaged $5.00 higher. A line of spring suits moved slowly at $25.00 but proved a good seller at $29.50 because the public evidently felt that at the lower price the suits could not be good.

Keystone

BRITONS BOUGHT THEM—*The first shipment of penguin eggs from South Africa sold in London for $2 a dozen. They are double the size of hen's eggs, resemble plover eggs in flavor, according to English epicures*

Organize Wood Users To Stabilize Lumber

NEXT week at Chicago, the annual meeting of the National Lumber Manufacturers Association will concern itself chiefly with the formation of the American Forest Products Industries, a new industry-wide association of all interests whose operations are based on the use of wood. It will include manufacturers of wood, pulp, naval stores, wood chemicals, plywood, veneers, dimension stock, poles and piling, shingles, and similar products.

Faced by the disastrous results of wasteful competition in the utilization of timber resources as well as in marketing practices, by destructive taxation and the encroachment of other materials on the field once served exclusively by forest products, the industry is making this attempt to get a united effort

THIS NEW BURROUGHS DESK DUPLEX IS *Two* ADDING MACHINES IN *One*

■

This new Burroughs adds two sets of figures and provides a separate total of each set, all in one operation; it also adds groups of figures, prints a separate total of each group and a grand total of the group totals, all in one operation.

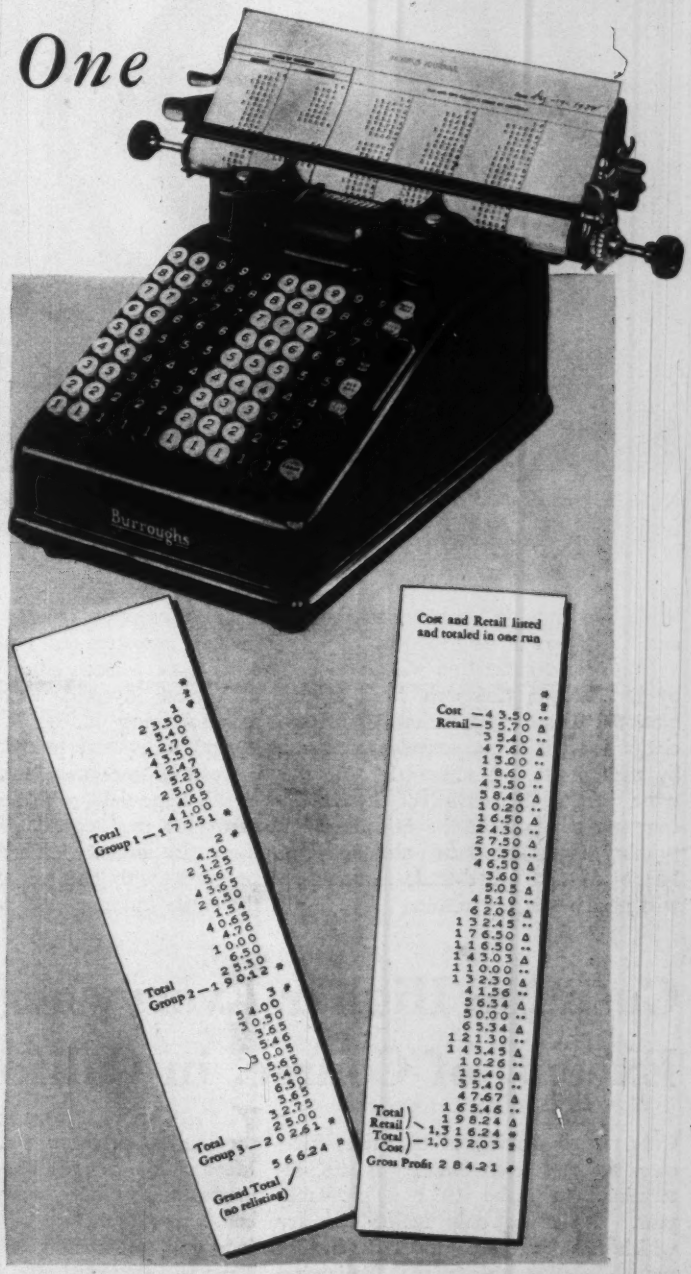
Think how many uses there are for such a machine in your own organization. Consider how much time, labor and money it would save by handling work without relisting.

Besides, Burroughs Desk Duplex Adding Machine is compact in size, requiring minimum desk space . . . it is easy to carry from place to place . . . and it is surprisingly low in price.

Ask the local Burroughs office for a demonstration of this remarkable machine on your own work, without obligation to you, or write to Burroughs Adding Machine Co., 6135 Second Boulevard, Detroit.

■

Burroughs


Burroughs
Cost and Retail listed and totaled in one run
Total Group 1 — 1 7 3.51
Total Group 2 — 1 9 9.12
Total Group 3 — 2 0 2.61
Grand Total (no relisting) 5 6 6.24
Cost — 4 3.50
Retail — 5 5.70
Total Retail — 1,3 1 6.24
Total Cost — 1,0 3 2.03
Gross Profit 2 8 4.21

The tape at the right shows two sets of figures added at one time with a separate total of each set. The tape at the left shows separate groups of figures listed and totaled, and a grand total of group totals provided without relisting. The wide carriage permits use of both wide and narrow forms.

Acme

GEARLESS CLOCK—*Westinghouse developed this electric clock which has only 4 moving parts. The hands are moved by a rotating magnetic field*

behind a campaign for better promotion and utilization of its products.

The new organization was developed by Dr. Wilson Compton, head of the National Lumber Manufacturers Association, and is being actively supported by that group. Membership, for the most part, will consist of individual concerns engaged in the utilization of primary forest products, although the N.L.M.A. and other trade associations will also be on the roster.

Dr. Compton points out that the lumber industry ranks second in the number of persons employed and third in capital invested, among American manufacturing industries. More than 20,000 individual industrial units and a score of trade associations now work in this huge field, with no uniform program for the general advancement of the entire industry. To develop such a program, with the full cooperation of the entire industry, will be the purpose.

Gasoline Higher Everywhere, Except, of Course, in California

CONTINUED firming of oil prices indicates the petroleum industry is still determined to make 1932 a profitable year. It is the only major industry which has been able to resist further price deflation this year. Following general increases in crude prices in March (*BW—Apr6'32*) which brought the best grades to $1 a barrel, an increase of 1¢ a gallon in tank wagon and service station prices of gasoline started in the Middle West 2 weeks ago has now been made effective throughout the country excepting the Pacific Coast. Meanwhile, as gasoline consumption increases seasonally, new demands are being met from stocks instead of by increased production as in the past. Thus the statistical position of the industry is constantly improving. During the week ending Apr. 16, crude production declined 45,000 bbl. a day and gasoline stocks were lowered nearly half a million barrels. There is still some doubt whether the entire industry will support the higher-price, lower-stocks movement, but experience has proved so conclusively the economic fallacy of doing otherwise that there is strong hope that the line will be held.

East Texas Menaces

East Texas still is the most probable source of trouble. With new wells being brought in continually, it has been necessary to make progressive cuts in the allowable output per well to keep total production of the field within reasonable bounds. The latest order of the Texas Railroad Commission restricted output per well to 67 bbl. a day and 7 major producers cut their own output to 62 bbl. a well a day. But production continues to increase and another cut is due soon, perhaps to 50 bbl. a well. This quota would be so small, however, that many wells might be endangered. Considerable pressure is being brought upon the commission to develop some method of restricting output that will permit more economical operation of those wells which are permitted to flow.

All major marketers in California decreased the price of their ethyl and standard grades 2¢ a gallon and raised their third grade products ½¢ a gallon. More important to dealers, the change cut the differentials between tank wagon and retail prices from 4¢ to 2¢ a gallon.

Two Reasons Assigned

No official reason was given, but 2 factors are considered responsible. For one thing, an unusually large volume of third-grade gasoline has been sold at a differential of from 7¢ to 9¢ a gallon under the 2 better grades. Offered by major companies to meet competition from cut-price independents, it had not been expected to win most of the volume from the 2 more profitable lines. For another reason, dealers had already cut retail prices on the standard lines so that their actual differential has been 2¢ a gallon instead of 4¢. The major companies may have decided that if dealers were satisfied with a 2¢ profit, prices could be cut to fit. Major marketers have hopes the reduction will eliminate price-cutting; they don't see how a service station can be run profitably on less than a 2¢ differential.

They are considering a plan to offer cash bonuses in the form of increased differentials of 1¢ a gallon to all dealers who maintain retail prices throughout the month. This plan will also stifle complaints of dealers who say they cannot operate on a 2¢ differential; if they maintain prices they can get another cent.

The check that takes care of every need—and is never late

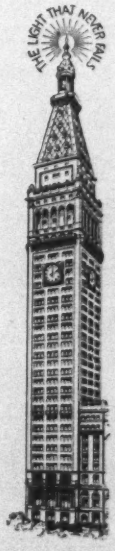
© 1932 M. L. I. CO.

Metropolitan Life's contracts afford a means to

—create estates and incomes for families
—pay off mortgages
—educate children
—provide income in the event of retirement
—establish business credits
—stabilize business organizations by indemnifying them against the loss of key-men
—provide group protection for employees covering accident, sickness, old age and death
—provide income on account of disability resulting from personal accident or sickness.

Metropolitan policies on individual lives, in various departments, range from $1,000 up to $500,000 or more, and from $1,000 down to $100 or less—premiums payable at convenient periods.

The Metropolitan is a mutual organization. Its assets are held for the benefit of its policyholders, and any divisible surplus is returned to its policyholders in the form of dividends.



WHETHER he is at home or away on a business trip, as at present, Father never forgets that Mother will need her allowance on the first of each month and he has never failed her.

Before leaving, he had the great satisfaction of carrying out the plan he has had in mind ever since the day he married Mother. And he asked a Metropolitan Field-Man to call and tell wife and daughter about the arrangement made with his insurance company.

The check needed for their living expenses will continue to arrive on the first of the month, even though he may be summoned unexpectedly to make the long journey—not just a short business trip.

He is a business man and knows that bills must be paid and that it is his concern to remove all uncertainty as to a fixed income to meet them.

—After the Field-Man finished telling how Father had made future provision for their comfort, Mother said, "That is just like Dad."

▼ ▼ ▼ ▼

Every father who wants to protect his family should know that there is one sure way to provide for his loved ones—and that is by arranging a definite monthly income for them.

See a Metropolitan Field-Man at once and have him explain to you how practical it is to make sure of protecting that family of yours.

Regarding Life Insurance in any amount, consult a Metropolitan Field-Man or write to

METROPOLITAN LIFE INSURANCE COMPANY

FREDERICK H. ECKER, PRESIDENT · · · ONE MADISON AVE., NEW YORK, N. Y.

St. Louis Terminal Project Provides Store-Door Unloading

THE Illinois Terminal Railroad System, a North American Light & Power subsidiary, will complete early this summer its $15-million terminal project in St. Louis—one of the most ambitious undertaken in recent years. The program includes the construction of a new electrified elevated-subway into the heart of downtown St. Louis, also the erection of a group of terminal buildings.

The Illinois Terminal operates between St. Louis and important points in Central and Eastern Illinois (including Danville, Peoria, Champaign, Springfield, Alton) and is the only railroad owning a bridge across the Mississippi at St. Louis. Its main line is 455 miles electric, 94 miles steam.

Elevated and Subway

Replacing the former circuitous, traffic-congested street-level route, the new route from the McKinley Bridge to Washington Ave. and Twelfth Blvd. will provide a high-speed, double-track electric highway, 2.58 miles long, of which 1.61 miles will be elevated, 0.97 mile underground. The elevated portion of the line has been in operation since July, 1931, and part of the subway as far south as Franklin Ave. since Nov. 1, with the balance to be completed about the middle of next July.

It eliminates 29 highway grade crossings, reduces rail crossings at grade from 8 to 1. Passenger car operation via the elevated line has cut the running time between St. Louis and Granite City by 12 minutes, and when the subway is completed, it will be still further cut.

The chief feature of the development, however, is seen in the facilities provided for the expeditious handling of a large volume of freight to and from St. Louis's congested business area.

Already in Use

The new plant of the St. Louis *Globe Democrat* is now making use of these facilities. Lying adjacent to the Illinois Terminal line, its newsprint is no longer trucked through city streets but is delivered direct from freight cars underground to the stockroom without rehandling, thereby cutting the paper bill many thousands annually. A similar arrangement will be effected with the plant of the St. Louis *Star,* on its completion early this fall.

The freight terminals will be housed in the new Midwest Terminal Building, at the subway level of which 100 freight cars can be handled at a time. The building, covering an entire city block, will be 7 stories high, with 2 acres of usable space per floor, and so planned that additional stories can be added.

Another unit of the construction program is the North American Building, 12 stories high, to be exclusively an office building, and the first large office structure in St. Louis to be equipped with an air-conditioning system.

With interurban service across the river much improved, it is expected that more St. Louis commuters will build residences on the Illinois side.

Railroads Bait Lines With New Cars, Service

THE railroads' drive for traffic lost to the trucks is being pushed vigorously.

Following close on the railroads' decision to use the Railway Express Agency for trucking less-than-carload freight (*BW—Apr27'32*) in the Chicago area, Maine Central has announced that it is going to provide store-door pickup and delivery by a similar arrangement with the Agency. The new service, to go into effect May 2, will be free and will be offered at the principal points served by the road.

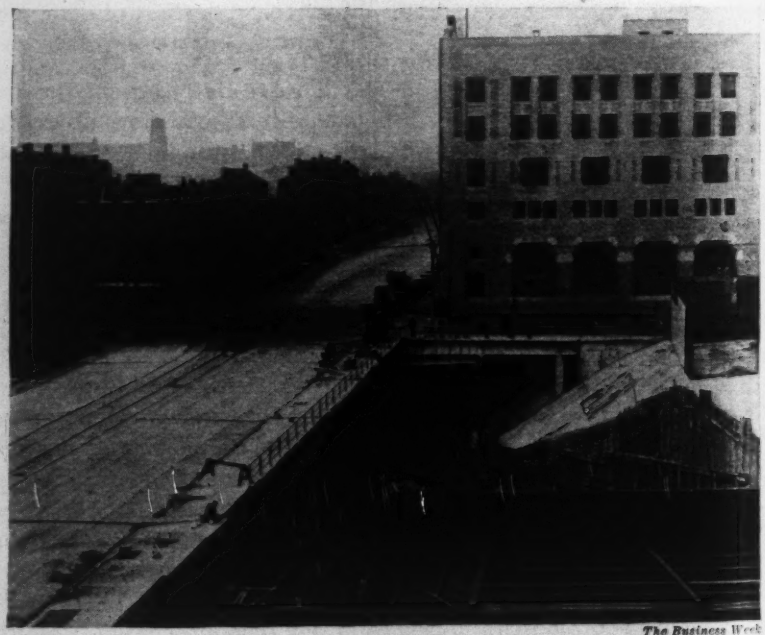
The Eastern roads have not yet agreed on their proposed joint plan of trucking through the Express Agency, but discussions on this subject continue. Responsible for the delay is the fact that some of the rail carriers are already tied up with trucking and forwarding companies.

In Canada also the railroads are working out plans to enter the trucking business.

Compartment Cars

Along with the development of railmotor service, new and improved facilities for handling freight are being installed on the railroads. One such innovation is the compartment car service, to be inaugurated on May 6 by the Chicago & North Western between Chicago, Waukegan, Kenosha, Racine, and Milwaukee, providing the Interstate Commerce Commission agrees. Cars of this type will have 4 compartments, of 768 cu.ft. each. Service will be offered at a flat charge of $15 a compartment, regardless of weight or type of goods carried.

About the same time, the Lehigh Valley and the New Jersey Central plan to introduce a new kind of container service for less-than-carload shipments on their lines. The containers, designed by Maj. Elihu Church of New York.



The Business Week

SUBWAY FREIGHT—*St. Louis gains a new boulevard in return for a subway right-of-way. The Globe-Democrat building (right background) is the forerunner of a new industrial development which will have freight-yard facilities in the heart of the city*

will be made of sheet steel—6 ft. long, 6½ ft. high, 2 ft. 8 in. wide—and will provide shippers with a less expensive form of packing case, easy to handle on the factory floor and between the factory and the rail car. One type container will be insulated and equipped with refrigeration to handle perishable goods.

How far the different attempts made by the railroads will be able to regain traffic from the trucks, remains to be seen. Reports from the Southwest indicate that the reduced rates on mixed carload freight put into effect there so far have failed to bring more business to the rails, and, according to a survey just completed by the *Railway Age*, the results obtained by the Southwestern railroads after 6 months' operation of free store-door service have not come up to expectations.

To Help Themselves, Roads Help Ship Lines

To encourage transatlantic steamship travel and thereby increase their own business, railroads belonging to the Central Passenger Association have cut their fares for tourists en route to Europe.

The new tariff applies only to coach passengers from Chicago and St. Louis, will continue in effect until Dec. 31. Its principal feature is a flat rate to all ports on the Atlantic seaboard. From Chicago this rate is $23.50, compared with the regular coach fare of $32.70 to New York, $36.70 to Boston, $40.55 to Portland, $50.50 to Halifax. The new fare from St. Louis is $28. Exceptions are the New York Central and the Pennsylvania. Slightly higher rates on these lines reflect the customary differential on regular rates between these and other roads.

Rail Holding Companies May Lose Their Votes

A NEW way is suggested for dealing with rail stocks in the possession of holding companies or individuals which would interfere with the Interstate Commerce Commission's consolidation plan.

The original proposal contemplated (1) bringing all future purchases of stock by railroad holding companies under I.C.C. control; (2) giving the commission power to compel the surrender of stocks acquired since 1920, when such holdings are found to conflict with the commission's consolidation

Pensions for Employees

. . .

A subject engaging the thought of all forward-looking Executives.

Prepaid retirement is desirable for all parties concerned. The problem has been to devise a workable method.

A sure and simple plan is now available in our latest Group Annuity Contracts.

THE PRUDENTIAL
INSURANCE COMPANY OF AMERICA
EDWARD D. DUFFIELD, President
HOME OFFICE, NEWARK, N. J.

THE PRUDENTIAL HAS THE STRENGTH OF GIBRALTAR
FOUNDED BY JOHN F. DRYDEN

HAND TO YOUR SECRETARY

Please write on my letterhead to Group Pension Department, The Prudential Insurance Company, Newark, N. J. Ask them to send a copy of "A Little Book about Pensions."

CAN HE TAKE THE HURDLE?

The radio entertainer may be thrown by the broadcasting equipment — unless it's *Western Electric* quality . . .

To get on the air right is to half win the race for attention. Many a star performer falls down because the sending apparatus is not all it should be. About 200 leading broadcasting stations are using Western Electric equipment, supplied by Graybar. They know that natural toned broadcast is necessary to your full enjoyment of a program. Western Electric's leadership in this field is the result of more than fifty years' pioneering. It was a logical step from making telephones to making microphones and amplification control equipment. Drawing on its experience in manufacturing sound transmission apparatus for the Bell System, Western Electric made the first successful talking picture equipment. It has also been foremost in radio telephony for aviation, police and marine uses.

Western Electric

LEADERS IN SOUND TRANSMISSION APPARATUS

ideas. The latter feature, fought strongly by the railroads, was later dropped from the bill (*BW—Apr27'32*).

In place of it, the House Commerce Committee now proposes simply to deprive railroad holding companies of the right to vote the stock of operating carriers whenever the proposals to be voted on are contrary to the official consolidation plan.

This provision, however, raises some important points. In the first place, it is problematical whether the commission could anticipate actions by stockholders which, in its judgment, would interfere with the orderly progress of consolidation according to the official pattern. Then also, as Commissioner Eastman pointed out during the recent hearings, if a holding company with a controlling interest is prevented from voting its stock, the railroad would be left without a management.

In actual practice, the question of exerting restraint upon pivotal companies whose holdings depart from the 1929 official plan will, of course, become largely academic if the commission agrees to the 4-system consolidation in Eastern territory. By accepting the allocation of lines among the Chesapeake & Ohio–Nickel Plate, Pennsylvania, Baltimore & Ohio, and New York Central, all that the Van Sweringen brothers and the Alleghany Corp., the Pennroad Corp. and the Pennsylvania Co. have accomplished by sidestepping the commission's authority would be officially ratified. Final argument on the 4-system plan was heard by the commission this week.

Despite Interstate Load, It's an Intrastate Truck

THE question of whether or not a state can regulate an "intrastate" motor vehicle operator carrying "interstate" goods has been decided in the affirmative in California.

In a case brought by the Interurban Motor Transportation Association against the Western Transportation Co. operating, without a certificate of public convenience and necessity, between Los Angeles Harbor and Los Angeles, the California Railroad Commission held it to be of no significance that a large part of the commerce moved by the defendant was interstate in character. The requirements of the California statute cast no undue burden on such commerce, it said. The defendant was ordered to stop his operations pending receipt of the required certificate.

The American Consumer Market —A Study by The Business Week

2. Second article of series measures the striking increase in the service industries

NEXT to the rapid long-term growth of the American consumer market in the past half-century and its enormous size, shown in the first article of this series, the outstanding feature of changes in the national standard of living since 1919 has been the increasing consumption of services. This fact has been recognized in a general way, but there has been no attempt to measure its significance in statistical terms, although it is of direct importance in business planning.

It has often been pointed out that the increased consumption of services in the period since the war has helped offset the effects of rapidly rising industrial efficiency, and has absorbed workers released by technological improvements in production. More important is the implication that lines of business manufacturing commodities for the consumer market may be facing a saturation process or a relatively slower rate of market growth than those catering to service demands which seem to be indefinitely expansible, and to be increasing faster than the market for goods as the national income increases.

Factors Obscuring the Trend

The chart in last week's issue, showing the relatively slower growth of retail sales of commodities as compared with total consumption of goods and services, taxes paid and savings, in the past 50 years, suggested something of this sort. But the trend of the two lines is affected by several factors which make such a conclusion uncertain. For the whole period, relatively increasing expenditures for taxes which represent governmental services, and for savings which represent purchases of security, tend to raise the total consumption line somewhat more than the increasing consumption of services commercially sold might indicate. Further, the direct distribution of goods by manufacturers to consumers has been increasing in recent years. Institutional purchases of consumer goods have probably also relatively increased, and in 1929 it may be estimated that they amounted to about $1¾ billions. These are made mainly from wholesale sources or manufacturers. All that can be justifiably said on the basis of this long-term comparison is that the American people have probably been spending relatively less of their money in retail stores selling consumer commodities in recent years than before the war.

Full Significance Shown

The full significance of shifts in the standard of living, so far as business catering to the individual consumer is concerned, can be more clearly seen from the charts and table in this article. Separating the total value of all goods, services, taxes and savings into (*a*) all tangible commodities purchased by consumers and (*b*) services, including taxes and savings, it will be seen that the proportion of goods has declined and that of services has risen rather sharply throughout the 12-year period. If the relative trends during this period were to continue, the two classes of expenditures would be about 50-50 by 1940.

But the chart suggests that periods of marked commodity price changes alter the proportion considerably. The severe drop in commodity prices in 1921 sharply reduced the proportion spent for goods. Since the cost of services and taxes changes more slowly, their proportion rose.

Market Opportunity Shifts

In the present depression, wages and salaries have been reduced more drastically than in 1921, and probably on the whole as much as commodity prices, so that there have been no such marked changes in the proportions spent for goods and for services. But we shall not be able to tell what happened in this depression period as a whole until figures for 1931 and 1932 are available. The important point to note is that the proportion of the total consumer market available to the manufacturer of consumer goods (domestic and foreign) has declined from about 66% to less than 60% in this 12-year period, while the proportion of the consumer dollar going to all services, taxes and savings combined, has increased from a third of the total to two-fifths. In actual figures the service market has increased by 50% over the whole period, while the goods market has increased by only about 12%.

The consumer market, from a business point of view, is the total value of all goods and services that can be absorbed *after* all payments to government, savings, and expenditures for services not commercially sold are made by individual consumers. For a still more precise picture of the domestic consumer market it is necessary to allow

The Domestic Business Market for Consumer Goods and Services

(Millions of Dollars)

	1919	*1920*	*1921*	*1922*	*1923*	*1924*	*1925*	*1926*	*1927*	*1928*	*1929*	*1930*
Goods	46,705	51,200	41,611	45,226	50,863	50,965	52,898	56,554	56,517	59,363	60,817	52,528
Services	14,198	15,177	14,641	15,507	16,620	17,637	19,004	20,656	21,993	23,389	24,490	22,242
Total	60,903	66,377	56,252	60,733	67,483	68,602	71,902	77,210	78,510	82,752	85,307	74,770
Non-commercial Services	1,140	1,271	1,224	1,212	1,335	1,444	1,530	1,626	1,735	1,864	2,020	1,874
Taxes	3,091	3,059	2,842	3,095	3,034	3,210	3,504	3,646	3,807	3,838	4,210	4,080
Savings	5,488	6,299	4,974	5,296	5,794	5,852	6,737	7,786	9,159	11,588	11,299	6,859
Imports	2,280	3,607	1,708	2,004	2,398	2,494	2,609	2,783	2,857	3,039	3,255	2,535
GRAND TOTAL	72,902	80,613	67,000	72,340	80,044	81,602	86,282	93,051	96,068	103,081	106,101	90,118

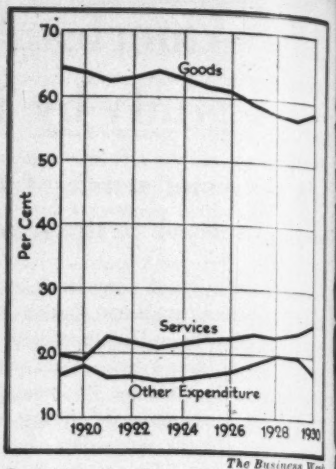
for the value of consumer goods and services bought abroad, which can be done only approximately.

To set up the picture of the consumer market on this basis, the figures in the general table given last week have been further broken down and rearranged. All payments to government that can be segregated, all savings, foreign purchases, and expenditures for non-business services have been separated, so that the result shows the total net American market for commercially sold domestic consumer goods and services. These figures, separated so far as possible between goods and services, are shown in the accompanying table. This separation cannot be made with strict accuracy because some of the figures representing service sales include some commodities, and vice versa. But the result presents a somewhat different picture of the domestic consumer market, both as to total volume and as to the division between goods and services, than is set up in the general figures in this and the preceding article.

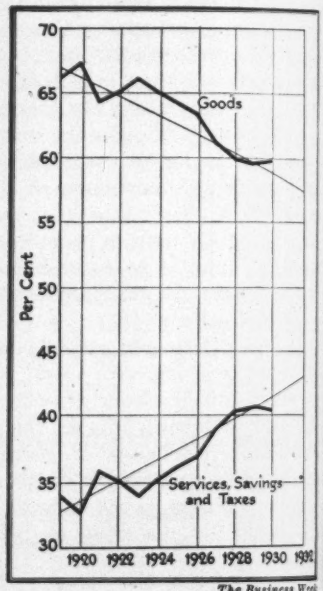
In actual figures the amount of domestic goods absorbed by the American consumer market in 1930 was only $5.8 billions more than in 1919, an increase of about 12%, or an average growth of about 1% per year. Services absorbed, however, were over $8 billions larger, an increase of about 57%, or at a rate of 4.7% per year, which is close to the average rate of growth of the total volume of business in the United States over the past 50 years. In other words, the expansion of the American consumer market since the war has been based primarily on the expansion of demand for services, and business has been confronted with a relatively declining market for commodities. Even in the drop from 1929 to 1930 sales of services fell off only $2.2 billions, while those of goods declined $8.3 billions or almost four times as much.

The Changes in Percentages

The proportion of the consumer market available to business selling commodities declined from 64.1% in 1919 to 58.3% in 1930; that taken by sales of services rose from 19.5% in 1919 to 24.7% in 1930; while the proportion of non-commercial and foreign expenditure showed relatively little change except for a marked rise in 1928 and 1929 when savings were large.



SIGNIFICANT INCREASE—*The proportion of the consumer's dollar going for commercially-sold services has been increasing, at the expense of merchandise sales, while foreign purchases, savings, taxes, and other non-commercial expenditures have not changed much*



SIGNIFICANT DECLINE—*If the proportion of money spent by the American consumer for goods continues to decline at this rate, by 1940 only half the consumer's dollar will go for merchandise*

Part-Time Work, 13% Wage Cut Shrink Pay Envelopes by 32%

Cost of living down but 21% by standard indexes now challenged as inadequate

SURVEY by the National Industrial Conference Board of some 1,500 companies in manufacturing, mining, transportation, utilities, and trade which, in 1929, employed slightly more than 2 million workers discloses that employment among these concerns has declined 26% from 1929 levels; that executive salaries have been cut 20%, routine salaries 15%, and wage rates 13%.

The Conference Board's cost of living index declined 20.7% from October, 1929, to February, 1932.

Magnus W. Alexander, president, commented: "Reduction in wage rates, on the average, has so far held consistently below the percentage decline in the cost of living, whereas more severe reductions have been made in routine salaries and, especially, executive salaries, the percentage reduction in the case of the latter closely approximating the decline in living costs."

This is true, read literally, but it should not lead to the conclusion that real wages have remained steady. Under present conditions of part-time employment, wage rates are no measure of workers' incomes. The amount of money in the pay envelope at the end of the week is what interests employees and determines how well they can live.

Although direct comparisons of actual total wages paid now and in 1929 by the companies included in the survey is impossible, the Board collects payroll information from manufacturing industries which may be considered partially representative of the entire group. According to these figures, actual weekly earnings of factory workers have declined more than $9, or 32%, since October, 1929.

Of the 2 million workers employed by these 1,500 companies in 1929, more than 550,000 have lost their jobs, probably have no income. The 1.6 million persons who still have jobs of a sort, have had their wage rates cut 13%, their average hours of work per week cut 24%, and their actual weekly income cut 32%, with which they must meet costs of living which have declined 21%.

The Board's cost of living index is based upon a sustenance budget for workers of pre-war days in which food

clothing, and rent are given great weight. The consumer studies recently completed by *The Business Week* demonstrate that the budget of the American people contains many important items not included in the Conference Board's index and in which price declines have been relatively unimportant. Future articles in the series discussing this study will show that living costs have declined much less than is indicated by standard indexes such as the Board compiles.

For salaried workers the estimated cuts are likely to be more nearly representative of actual loss of income. Numerous companies recently have placed salaried workers on part-time, but this is still an unusual practice. Thus while actual incomes of salaried workers are probably somewhat less than indicated by average rate cuts of 20% and 15%, they probably have not been slashed so drastically as have the wages of the proletarians.

March employment figures collected by the U. S. Bureau of Labor Statistics report a further decline of 1.5% in employment in March, compared with February, and a 2.4% reduction in earnings. In manufacturing industries, employment dropped 1.7% and earnings 2.8%. Only in anthracite mining, retail trade, and dyeing and cleaning were increases in employment reported for March.

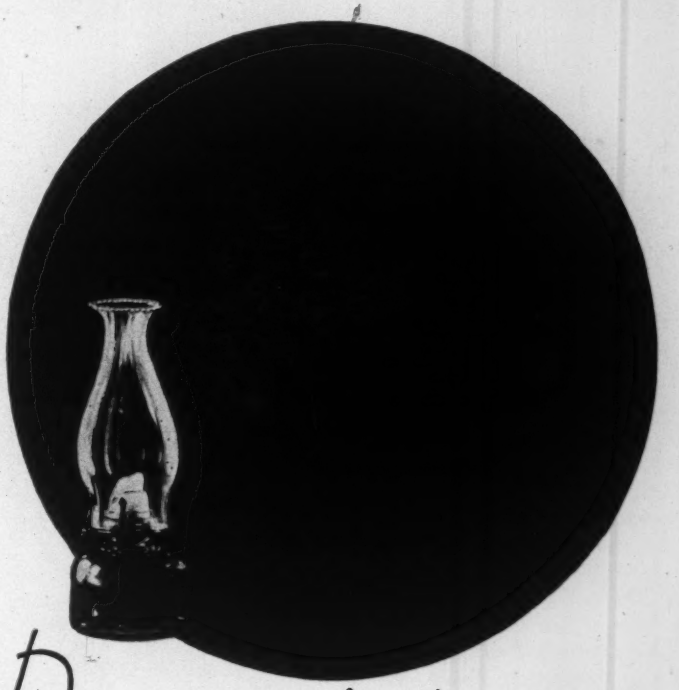
Building Wages Cut; New York Workers Wait

WHAT appears to be the last important stand against wage cuts for building tradesmen is on the verge of defeat as employers of the 30 trade groups comprising the New York Building Trades Employers Association complete plans to initiate new wage scales without benefit of union agreement.

The new scales will be from 20% to 35% under those adopted in 1929 and still in force. They will be effective until the end of 1933—if the employers can continue to hold the whip-hand over the labor organizations.

Labor leaders have countered with offers of 15% reductions for a limited period, but their failure to get these accepted doesn't mean a strike. The unions will wait in hopes of an improvement in business conditions that will improve their bargaining position.

Meanwhile, the new scales, similar to those in effect in 1923, will give some trades and many individual craftsmen more pay instead of less. Wage sniping



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as a result of the serious unemployment and the consequent competition for jobs has brought some of them down to an unofficial 50% or less of scale wages.

If stabilization at a lower scale increases labor costs in this way in some instances, building leaders will not complain. They are convinced that the advantages of a firm labor market will more than offset the handicap of such cost increases. And they add that it is usually the fly-by-night contractors who do the sniping: the rest of the industry should worry if they get caught now.

Unemployment Captures The Political Stage

POLITICIANS disposed to underestimate the importance of the unemployment issue are revising their opinions in the light of what has happened in Seattle, Wash. There it has not merely gotten into politics; it has taken over politics.

The Unemployed Citizens League, organized in that city to obtain employment for its members—then forced by conditions to interest itself in relief—has finally turned its attention to politics and swept its entire slate into office at the municipal election. A mayor, 3 councilmen, 2 school directors, and a member of the Port Commission were elected by the League and its followers.

The organization now includes 11,500 needy families, 40,000 individuals. With sympathizers, it is estimated to control 50,000 votes of the 144,000 registered at the recent election. Its Seattle success has spread the movement to other cities and in rural sections it is joining forces with the Grange. Its leaders expect to hold the balance of power at the coming state elections.

The League has changed a city council hostile to relief demands into a body which is cooperating with plans for distribution of seeds, tools, and other emergency aids. It is demanding a special session of the legislature to appropriate $3 millions for public works and seeks the repeal of a law compelling the sale of property without notice to the owner when assessments remain unpaid for 2 years.

The League is also sponsoring, by initiative, an unemployment insurance bill to provide weekly benefits from $10 to $20—one-third of the cost to be borne by the state, one-half by employers; one-sixth by the workers. From funds supplied by county commissioners the League is operating 22 local commissaries.

International News

GARDENS FOR RELIEF—*Farmers have plenty of produce to sell, but city workers without money are no longer a market. A revival of the "war garden" idea gives unemployed and part-time workers a chance to grow the food they cannot buy. Here, land is being ploughed for the use of International Harvester employees in Chicago. Under this company's plan, land is leased, ploughed, turned over to workers in ¼-acre plots for individual planting and care. Because each man grows only for his own consumption, there is no competition with commercial gardeners*

Month's Sales Fix Pay Scale In Several Chicago Plants

Both workers and management satisfied plan is fair after 2 years of experience

VARIOUS companies of considerable size are now adjusting payrolls automatically to current income. If this be fairly and intelligently done, it means that no one need be fired and that whatever may yet happen, the company will still live within its income, or almost.

George R. Meyercord, Chicago manufacturer who heads Vitrolite, Haskelite, Meyercord Corporations, each of which employs 400 or 500 persons and does normally around $2 millions business, has used such a plan for 2 years. Illinois Manufacturers Association has found it necessary to mimeograph an explanation of the plan to answer a flood of inquiries. Other employers have followed the principle, though details of application vary.

Meyercord's plan takes care of the white collar workers. Ordinarily, even when work in shops is staggered, office workers are weeded out unmercifully. As a result, distress among unemployed office people is now unusually acute.

Meyercord has fired no one for the purpose of cutting costs. He requires that office workers be at their desks full time. They receive pay roughly in proportion to billings of the month before. He has followed common sense rather than mathematics in working out details. He figures pay by half days. Thus, based on April business, certain workers may be getting 3½ days' pay each week in May, others 4 days'. High-priced help is cut most severely, but those who have received in excess of $150 a month

normally are not reduced below that figure.

Advantages cited by Meyercord: Removal of the fear of being fired does a lot for morale. Employees do not grumble. Some use their heads to figure out ways of building the company's business; $15,000 added income came from a suggestion put forth by an office girl. She saw a new market for the product. Having a full office, rather than a lot of empty desks, has a good effect on both workers and customers, Meyercord believes.

Nobody's pride is hurt. A $35-a-week comptometer operator is still that in her own mind, even though she be getting only 3½ days' pay for being at her desk 5½ days a week. To date, Meyercord has not deflated his base wages. They are still at 1929 levels. Eventually they will have to be brought down, he believes.

James D. Cunningham, president Republic Flow Meters Co., Chicago, lunched with Meyercord about a year ago and heard the plan explained. He "didn't like some features of it," but he "did like the basic idea." He applied it last September as follows:

First, everybody was reduced 25% under 1929. Then it was determined how much business must be done to pay this deflated payroll and break even or make "an extremely moderate profit." Pay for each month rises or falls according to the billings of the month previous. If billings fall below the par, then pay is reduced in proportion. If billings exceed par, then pay rises. Since September there have been 3 months when small bonuses were paid —8%, 6%, 2%. Cuts have totaled more, however, largest being 20%.

Harvester Workers To Harvest Their Own

FORMER employees of the International Harvester Co. in Chicago, Milwaukee, Auburn, N. Y., Fort Wayne, Ind., and Canton, O., will each be given a ¼-acre plot of ground upon which to raise vegetables for their own consumption. The company has leased 1,000 acres, is preparing the ground with tractors, will provide tools and seeds if necessary.

Emphasis will be placed on growing root crops such as turnips, potatoes, carrots which may be kept for a long time. Each gardener must use his own produce, either fresh or in preserved form, to avoid competition with commercial gardeners. Watchmen will protect gardens from thieves.

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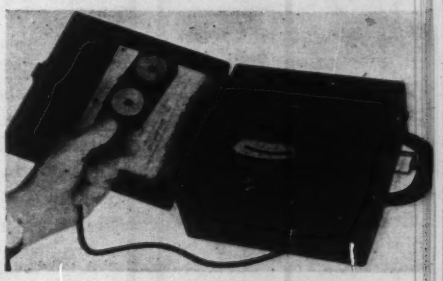

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Business Begins to Write Down Book Values of Fixed Assets

CORPORATIONS are beginning to write down book values of fixed assets, thus decreasing depreciation charges and benefiting profits. Though the movement has not yet become general, it is increasing rapidly.

Such changes in asset values are frequently accompanied by reduction in stated capital, thereby providing adequate surplus against which write-downs can be charged (*BW—Mar16'32*). European corporations often make internal adjustments through device of asset and capital devaluation. Its adoption in the United States makes corporate accounts more closely reflect wholesale deflation of values occurring during past two years.

To Stockholders' Advantage

Reductions in book value of fixed assets and corresponding reductions in depreciation charges have reacted to advantage of stockholders. Resulting increase in earnings has tended to stimulate investment demand for securities of corporations following the devaluation policy. This trend is accompanied by reductions in the number of shares outstanding, also with a view to strengthening the market for stocks by showing increased earnings per share.

Values in security markets the last 2 years have been determined almost entirely by earnings, and the factor of book value has been neglected. Many railroad stocks are selling at prices which are one-fifth to one-fiftieth of their book value, owing to the decline in earnings. Common shares of U. S. Steel are selling at less than one-sixth of their book value, while Bethlehem shares are selling at one-eighth of their book value.

Banks Lead the Way

Financial companies such as banks and investment trusts have taken the lead in writing their assets down to present market values. These companies, however, possess liquid assets for the most part and therefore find it relatively easy to determine present value of their holdings. Despite the difficulty of assessing fixed assets, industrial companies are embarking on a similar program. Such factors as strategic location of plants, demand for type of product, and cost of replacement are the basis of the extent of write-down.

Before embarking upon such a program, however, accountants state that each company should be assured that reduced values will not have to be revised upward within a year or two. Frequent changes in values assigned to fixed assets would smack of manipulation.

No compilations have been made to date to indicate the extent of the movement. Some of the important examples of the trend show essentially the process outlined above. Union Carbide wrote fixed assets down last year from $235 millions to $210 millions, thereby reducing depreciation charges $1.3 millions and benefiting 1931 profits accordingly. Colorado Fuel & Iron reduced fixed assets from $60 millions to $44 millions, thus permitting a 25% reduction in depreciation.

In explaining a plan to write down the book value of investments in plant facilities $13 millions, Mr. Erskine, president of Studebaker Corp., said: "If the write-down of plant facilities is made, substantial savings would result to the corporation in depreciation and other charges, thereby benefiting profits. Last year our charges against profits for depreciation alone amounted to $2,251,586, or $38.95 per car produced."

Other Instances

National Enameling & Stamping wrote fixed assets down about $4.5 millions, followed by a proportionate reduction in depreciation charge during 1931. Zonite Products also devaluated. Land, patents, buildings, were written down last year from $13 millions to $0.8 million, thereby reducing depreciation and amortization to a comparatively small sum, with consequent benefit to profits of 1932 and future years.

Case of Commercial Solvents bears indirectly on the point at issue. Fixed assets have been written down during the past five years from $15 millions to $1. Earnings reported therefore reflect operating results without consideration of any change in property, because property account and hence all future depreciation charges on it have already been charged to surplus. This policy is said to be open to certain criticisms from the point of view of stockholders.

Reports of earnings of U. S. Steel and Bethlehem Steel for 1931, showing deficits of about $49 millions and $13 millions, respectively, after dividend payments, stimulated suggestions in Wall Street that these companies might show improved earnings in future by writing down fixed assets, thus decreasing depreciation charges. Such a write-down would not in any way reduce the intrinsic value of the properties. In case of U. S. Steel with fixed assets, after reserves, carried at about $1,650 millions, depreciation and depletion charges aggregated about $47.5 millions in 1931. At end of 1930 such charges were $58.5 millions. Report of Bethlehem, it is pointed out, similarly shows how its huge fixed assets required heavy depreciation charges, and that these in turn drew heavily on operating profits. The company's balance sheet as of December, 1931, carried property item, after reserves, at about $530 millions. Depreciation and depletion charges last year amounted to $13 millions, against $14 millions in 1930.

Most Big Buyers of Own Stock Are Now Sadder, Perhaps Wiser

CORPORATIONS are beginning to buy their own stocks in the open market. The movement has not yet become general, but is increasing rapidly. Reasons given are: (1) to support the market; (2) for investment; (3) for retirement; (4) for expansion; (5) for employee stock purchase plans.

With but few exceptions, the companies have lost money. A recent compilation of 50 large corporations that purchased their own common shares shows 48 suffered substantial losses. Loss reported by Peoples Gas Light & Coke Co. runs to almost $6 millions; General Motors lost $5 millions; International Shoe Co., $3 millions; E. I. duPont deNemours & Co., $2.5 millions.

S. S. Kresge Co. holds 381,824 of its own shares, representing an investment of $9,251,453. Stock purchases at a cost of $8,951,287 have reduced the company's cash from $11 millions to $4 millions during the past year. Stock held in treasury cost $24.23 a share; current market price is about $9.

Wall Street veterans feel that managements frequently would have a hard time defending such use of corporation

funds. Bondholders also feel they have a legitimate kick against depletion of cash reserves during a depression.

However, a few companies show profit on their holdings—as Alaska Juneau and R. J. Reynolds. The latter does not reveal the number of shares held, but cost of these shares has been written down, through profit made on earlier transactions, to current levels.

Reducing Capital

Substantial reduction of capitalization is one desirable result of such operations. In addition to shares now held, Congoleum-Nairn, Inc., retired 251,126 shares of common stock in 1931; Petroleum Corp. of America, 514,400 shares; and Commercial Investment Trust Corp., 125,000 shares, together with large amounts of prior capital. More instances could be cited.

Criticism of company purchase of its own stock is based on three allegations: (1) Such commitments frequently weaken cash position, thereby endangering credit standing and future growth; (2) the operations tend to divert attention of officers of the concern from business problems to speculative gyrations of the stock market; and (3) the purchases permit many abuses, such as use of corporation funds to buy shares owned by directors, officers, and other insiders.

Scale-buying orders bring fewer abuses, it is said, than purchasing which is designed to peg the price of shares. Some corporations have bought shares by asking stockholders for tenders at a fixed price rather than through open market purchases. The advantage of this method is that it eliminates secrecy and charges of favoritism.

Some Legitimate Uses

Some corporations have legitimate uses for their shares in expansion programs, or in establishing good-will among employees or customers. A few of these could use authorized but unissued shares for this purpose, but such a method has been unpopular, because an increase in the number of shares outstanding tends to depress the market.

The New York Stock Exchange issued rules last year concerning investment trusts' purchases of their own shares, but none affecting companies of other types. Questions involved are so complex that regulation of repurchase of stock would be extremely difficult. Regulations might merely encourage subterfuges; even now many corporations carry on these operations through subsidiaries or through affiliated companies which would not be subject to any rules that might be proposed.

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EAST
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WEST
To San Antonio, Austin, Waco, Ft. Worth, Dallas, Arizona and Southern California

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Via two routes to Little Rock, Memphis, St. Louis, with connections to the north and east and to Colorado and the Pacific Coast

DEPENDABLE FREIGHT AND PASSENGER SERVICE

MISSOURI PACIFIC LINES

"A SERVICE INSTITUTION"

MISSOURI PACIFIC STAGES
AUXILIARY TO MISSOURI PACIFIC LINES

Building Loan Groups Get Help From R.F.C.

SAVINGS and loan associations are increasing borrowings from the Reconstruction Finance Corporation. Quarterly report of the R.F.C. as of Apr. 1 states 98 such associations have been helped with $17,326,748. This sum is comparatively small, but indicative of a trend.

Out of the first 30 loans on which detail figures have been released 21 have been made to companies in Ohio. It is reported that within the past few weeks 6 Cleveland savings and loan associations have received money from the corporation to use in paying bank indebtedness and tax bills on their own assets as well as property they have foreclosed. As yet, however, they have been unable to pay anything to their depositors. Out of 70 loan companies in Cleveland, only one or two are paying on deposits.

Other states whose institutions have been helped are North Carolina, and one each in Alabama, California, Indiana, New Jersey, New York, Texas, and Virginia.

The fact seems to be that more associations would borrow from the R.F.C. if legal restrictions did not prohibit. For example, in Pennsylvania, savings and loan companies are not permitted to put up collateral for any kind of borrowing. A similar situation existed in New Jersey until recently. A special bill just passed permits them to borrow from the corporation, if necessary. New Jersey is one of the "Big Four" in the savings and loan business—the others being New York, Ohio, and Pennsylvania.

Investment Trusts Pick New Favorite Stocks

ANALYSIS of the portfolios of 81 management trusts, representing a substantial majority of the total assets of all such trusts, reveals changing investment tastes of the past 3 years.

Consolidated Gas of New York and American Telephone stocks have been the most popular in each of the 3 years and are the only 2 which were among the first 9 in each year. General Motors holds third place, with American Gas & Electric following closely. Other issues favored by at least 25 of the trusts, in the order of popularity, are National Dairy, Public Service of N. J., American Can, Drug, Inc., American Tobacco, General Electric, Pacific Gas

& Electric, So. California Edison, Borden's, North American, United Light & Power, Union Carbide, and United Gas Improvement.

The analysis indicates (1) a very small decrease in number of common shares held; (2) a prejudice against railroad, mining, oil, and bank shares; (3) an increased demand for investment yield; (4) less interest in the more speculative stocks; and (5) a large amount of switching from issue to issue and group to group.

Among new favorites are higher yield issues, as North American Co., United Fruit, Loew's, National Dairy Products, Delaware & Hudson, Drug, Inc., and General Foods.

There has been a sharp veering away from the more speculative public utility holding companies. So-called blue chips of the past no longer monopolize the popularity list; highly speculative trading favorites like Radio are gradually being sold.

Union Pacific has replaced New York Central as the most popular rail, and Consolidated Gas is substituted for American Telephone as the most frequently held public utility; General Electric regains its 1929 standing as the leading industrial, a distinction temporarily taken from it in 1930 by U. S. Steel. In the metal group International Nickel has become more popular than American Smelting.

Bay State Starts Own Reserve System for Savings Institutions

MASSACHUSETTS' 2 central banking institutions, newly legislated into existence to avert runs on 195 mutual savings banks and 227 co-operative (building and loan) banks in the Bay State, are now realities. Their organization has met with almost unanimous approval.

The Mutual Savings Central Bank, limited to 5 years, provides emergency aid for mutual savings banks. The Central Co-operative Bank, also for 5 years, provides long-term borrowing for its members. Both institutions perform services somewhat comparable to those rendered by central banks in the Federal Reserve system.

Something New in World

Creation of these banks is something new in the banking world. No other state has anything like them. Savings and cooperative institutional laws in Massachusetts are very detailed and severe. But one or two such banks have failed, a few have been in peril, one or more of the largest in the state have sustained runs.

These new central institutions enable savings and cooperative banks to transform their assets into ready cash, to maintain a condition sufficiently liquid to permit them to meet without fear any forays that may be made upon the windows of their paying tellers.

The Mutual Savings Central Bank comprises all mutual savings banks, has a board of 15 directors. These are elected by county groups, according to totals of savings bank deposits in various counties. Suffolk County, for example, which is Boston, has a third of these deposits and so gets 5 directors.

Assessments can be levied on member banks up to 3% of their total deposits, producing a maximum of $65 millions. Initial assessment was only 3/20 of 1%. Supplementary assessments may be made as and if required.

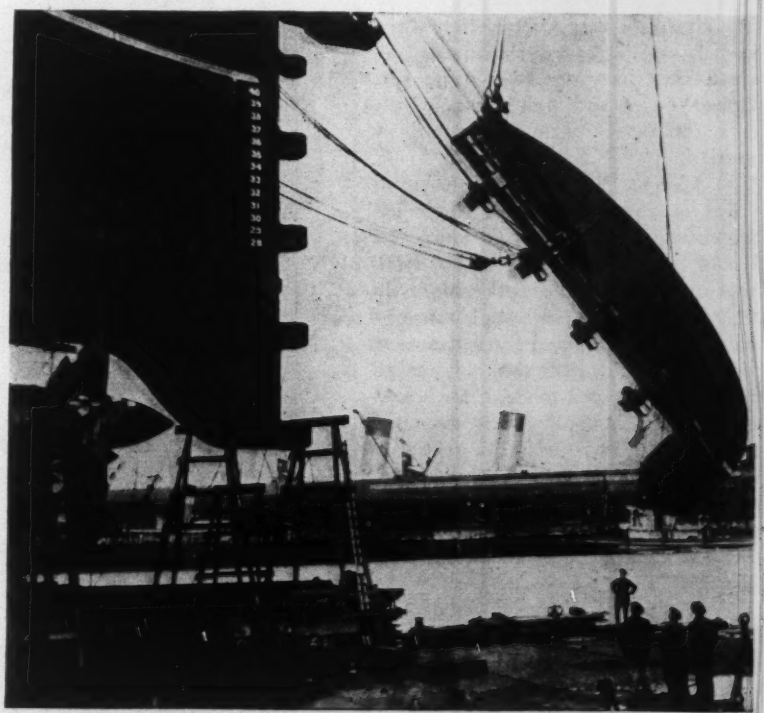
Member banks have access to central bank funds providing necessary collateral can be produced. However, directors are given much latitude in extending relief. The law does not dictate what security they shall demand, except that it must be adequate, nor how much relief they may extend to any bank nor for how long a period.

Earnings Are Expected

This central institution operates on sound business principles, is expected to earn more than enough to cover expenses. Money derived from the first levy has been invested in federal and state bonds, and bankers' acceptances eligible for rediscount. Such investments can be liquidated quickly. They produce a revenue of about 3%, which is to be paid back to member banks, after expenses are met. Promptitude is the very essence of the plan. Cash can be produced within 24 hours.

Nearly all that has been said as to the Mutual Savings Central Bank is applicable also to the Central Co-operative Bank. Co-operatives in Massachusetts do what is done in other states by building and loan associations. Nine-tenths of their assets are mortgages. Capital comes from shareholders who in time of depression may find it necessary to ask for money they have paid in. The central institution enables all such demands to be met without delay.

A co-operative with assets of $1 mil-



Acme

THE BERENGARIA'S RUDDER—*Unshipped and sent off for repairs, it blocked all roads on its journey, is here swung into position again*

lion can normally expect to receive $15,000 a month. If shareholders wanted to withdraw more than this amount the bank might be in difficulties. Even a demand of only 2% might embarrass a sound institution. The central bank is an extra guarantee of safety for the 500,000 accounts which Massachusetts residents have in co-operative institutions.

Member banks have already been assessed 25% of their legal reserve of cash and securities required under state law. A maximum assessment of 75% is permitted.

Both these new central institutions are now going concerns. They have chosen their boards, elected their officers, made their levies, and obtained their capital. They are ready for business. The very best thing about them is that there is little business to do.

"City Hall" Costs Us 4.7%; The Rest Is Cooperative Services

Most of our local taxes go to pay for jobs we could do ourselves—but not as cheaply

THOSE critical taxpayers who believe that all local government costs are extravagantly high and should and could be drastically reduced, will be interested in the accompanying table of the detailed average costs of running 250 cities in 1929—latest year for which complete data are available.

It shows that of the $77.52 annual per capita average per city only $3.67 or 4.7% of the total was required to support the original and primary legislative, administrative, judicial, and financial functions of local government. All other city expenditures have been for services demanded by citizens and which they have agreed can be performed easier and more economically as a community venture financed by taxation.

Largest Single Expense

For example, the largest single expense item was for education which cost $16.76 per capita, 22.2% of the total. Regardless of possible extravagances in school operation, few would suggest that they, privately and for less money, could provide for their own children all the advantages of a modern city school system. This is applicable to the other entries on the list. Detail tax items may seem high but in every case they buy services which citizens have wanted, and get them much cheaper than any individual citizen could obtain them for himself.

C. A. Dykstra, city manager of Cincinnati, has recently suggested that few government critics realize the continual shifting of time-honored individual expenditures into the field of public expenditures. If they save $25 in personal expense by getting the government to perform the same service for $3 they are apt to credit the saving to their personal account and then resent the increase in government costs.

Into the current agitation against tax rates enters this lack of knowledge of what modern governments do for their citizens. That detail economies can be made in most public as well as private enterprises cannot be denied. But tabulations like the one on this page emphasize the limits on cost-cutting in city government—unless we agree to return to living standards of 25 years ago or undertake to provide for ourselves what government now provides. The former method would bring real financial savings; the second would raise our personal expenses far above what we now pay in taxes. Neither looks like a sensible proposal.

How Cities Spend Their Money

Summary of Expenditures of 250 Cities During 1929

Functions	*Per Capita Cost*	*Per Cent of Total*
Operation and Maintenance		
General Government	$3.67	4.7
Education	16.76	22.2
Police and Fire Protection	8.52	11.0
Health and Sanitation	4.34	5.6
Streets and Highways	3.80	4.9
Charities, Hospitals and Correction	2.78	3.6
Recreation	1.56	2.1
Miscellaneous	2.25	2.3
Total	43.68	56.4
Public Service Enterprises, City Operated	3.76	4.8
Permanent Improvements		
Highways and Streets	8.20	10.6
Education	3.72	4.8
Sanitation	3.33	4.3
Water Supply	2.01	2.6
Recreation	1.55	2.0
All Others	3.02	3.9
Total	21.83	28.2
Interest of the Public Debt	8.25	10.6
Grand Totals	$77.52	100.0%

Pinchot Pushes Penn Into Power Rate Inquiry

PENNSYLVANIA'S Public Service Commission has ordered an immediate investigation of electric light and power rates within its jurisdiction, with special emphasis upon domestic rates. Two commissioners will conduct the study and will call upon all electric companies for complete information about the capital, operating expenses and other factors which affect rates.

Book values of companies will be listed, deductions made for depreciation, and additions made for "going concern" values and working capital. If the net return then shown is more than 7% a conference will be in order to determine if rates should not be reduced.

Under the governor's leadership a concerted drive against rates has been under way, particularly in western Pennsylvania and in territories served by West Penn Power Co. and Duquesne Light & Power Co.

Hitler Control in Prussia Depends on Concessions

EUROPEAN NEWS BUREAU—Germany's largest province, in fact two-thirds of Germany, went Fascist in the recent, much-discussed (*BW—Apr27'32*) Prussian Diet elections.

The party, however, failed to win a majority in the Diet. The next 7 or 8 weeks before this new legislative body meets are likely to be filled with much shrewd bargaining. It seems most likely that the Hitlerites and the Catholic Center (the party supporting Bruening) will work together to form a majority.

All Quiet Till Lausanne

Definite effects are not likely to become evident until coalition efforts begin to bear fruit.

Hitler control in the Diet is inevitable. It is only a question of what concessions he must make to secure the necessary outside-party cooperation.

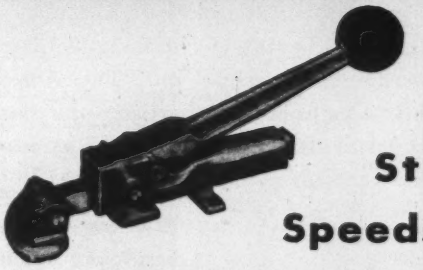
One significant result of the election was the drop in sterling, on heavy French selling. Frenchmen are inclined to look on a Hitler victory as unfavorable to any early solution of the problem in Central Europe where the British are heavily committed. At the same time, prices on the Bourse were steady. What France really thinks will show up in her own parliamentary elections May 1 and 8.

Radicals Seem Conservative

What really needs to be remembered is this: Hitler, to some Germans and more foreigners, still stands for very radical policies. Actually, many of his policies, radical as they would have seemed to everyone a few years ago, have already been adopted by Chancellor Bruening in dealing with the crisis in Germany. Interest rates have been lowered by decree. Chain stores are curbed for the next 2 years. Prices have been forcibly lowered. The country's largest banks have come under government control (though against the wishes of the government). Other Hitler policies propose the end of reparations; equal rights with other nations for Germany to arm; revision of Versailles.

These are the "planks" in the Hitler platform which conservatives everywhere hold against any government which he may head in Germany. In the face of the extraordinary things which have developed in the last year, and with full realization that preaching a policy and putting it into practice are two different things, there is likely now to be far less worry over the prospect of a Hitler-dominated Germany than the conservatives abroad picture.

How do you like that new Acme strapper, Joe? Think you can keep up with us now?
It's swell, boss. It puts the bands on tighter with less work and it's a lot quicker, too.



New Acme Strapping Tool Speeds Up Packing Job

Illustrated above is a new light-weight tool for applying Acme Nailless Band which is meeting with instant favor because of its speed and simpleness of operation. . . . . Regardless of what you ship—wood boxes, fibre boxes, crates, bales, bundles or skids, Acme can furnish you with proper equipment for their most efficient and economical reinforcement. . . . . Write for our "Bound to get there" booklet, which shows various money saving uses of Acme Nailless Band, and tools which make strapping any kind of shipment quick and easy.

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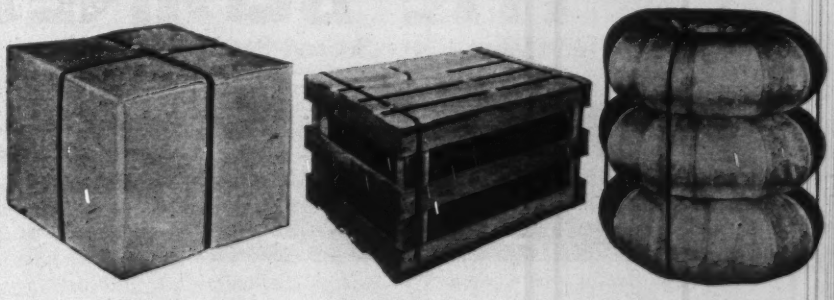
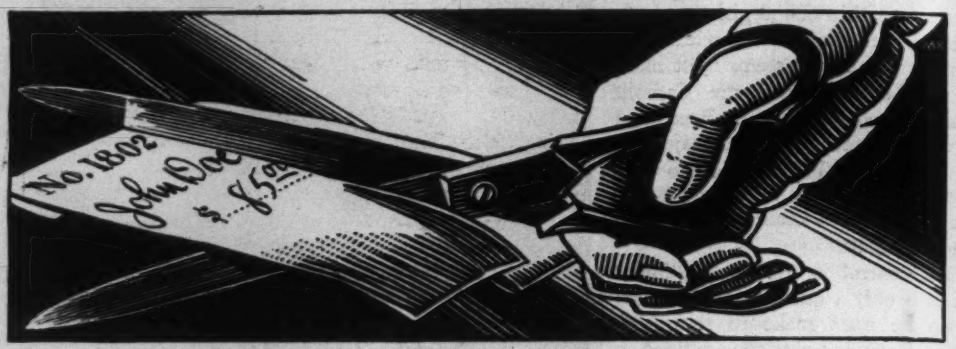
General Offices: 2828 Archer Ave., Chicago SAVE WITH STEEL *Branches and Sales Offices in Principal Cities*



When the consumer divides his pay envelope...



Which influences him more? Style in merchandise—or the desire for leisure?

DO CHANGES in style increase the total amount of goods sold—as business popularly supposes—or do they merely shift sales from one manufacturer to another? Is the desire for leisure an even more important factor in changing the course of consumer expenditures, shifting these from commodities to services?

Furthermore, in the purchase of commodities, how is consumer demand shifting to—or from—goods which are used up quickly, for example foods and toilet preparations as contrasted with refrigerators and dining room tables? And in the purchase of commercial services, exactly how do consumers choose between those services which are essential and those for which the demand is elastic?

Along with the answers to these questions, many striking facts are brought out in the next article on "The American Consumer Market." This article—the third of a series of 20 studies—appears in *The Business Week* (May 11th issue).

The series as a whole is vitally significant because if offers to business exact information, never heretofore available, on the marketing trends of the years from 1919 to 1930. It is the *only* all-over study of the expenditures of our entire population over a long period—a period of 12 years. It covers about a thousand items—virtually everything the American people buy.

Whatever your business, you will be better able to chart its future course with this series of studies to aid you in defining your markets. The subscription to The Business Week is $7.50. In Canada, $10.00.

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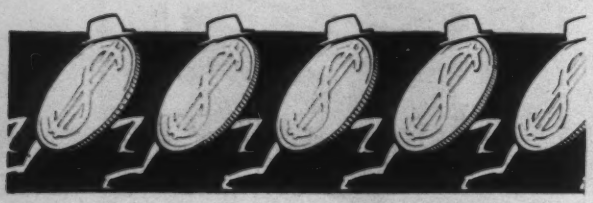


Where are the Consumer's Dollars Headed?

You'll find the answer in the series, 20 studies, "The American Consumer Market"; now running in *The Business Week.*

Le monde en folie ou le capitalisme à l'œuvre
LES PRODUITS DE DESTRUCTION
LA SEULE INDUSTRIE PROSPÈRE
LE SORT DES PRODUCTEURS DE RICHESSE
LA DESTRUCTION DES PRODUITS
ON DÉTRUIT LE FRUIT DU TRAVAIL
UN JOUR D'HIVER A PARIS
ALISTE
ER LE SALUT
LISATION

Acme

FRANCE SWINGS TO THE LEFT—*"Vote Socialist," says this poster, "to assure the health of civilization." It pictures the testing of a big gun, the burning of coffee in a Brazilian locomotive, the unemployed in Paris. Following that ancient and world-wide custom which throws out the party in power in times of stress, Frenchmen will elect many Socialists, but otherwise France is apathetic about the whole electoral campaign*

Those French Quotas May Open A New Chapter in Tariff History

Our policy of equality among importers cannot stand up under discrimination of this kind

EUROPEAN NEWS BUREAU—France made one more thrust at the United States recently when she scrawled "socks and stockings" onto the import quota list.

Since last August, she has imposed import quotas on more than 50 different commodities. With but one exception, quantities allotted to the United States are, relative to previous trade volumes, the smallest allotted any larger importer to France.

When no amount of protesting by the highest American authorities in Paris brought action, the American Chamber of Commerce appealed to President Hoover, requested that he exercise the right to call up the retaliatory provisions in the American customs law. France was startled.

It is just here that a new chapter in Franco-American trade relations is opened, and one which may have profound effect on American trade policy in general. This policy has consistently been: "No trade favors asked; none given. Reciprocal equality for all."

Under this policy, however, the United States has in the main given, but not received, equality. One country after another has found means of direct or indirect discrimination, often in violation of treaty pledges. The Czechoslovak discriminations against American automobiles (*BW—Mar18 '31*), for example, became notorious. They still persist. Washington was warned but nothing was done.

Two Courses Open

Now France has precipitated a situation far more serious. Washington cannot ignore the case unless willing to accept further discrimination by other countries. There are 2 possible courses:

(1) Application of reprisal measures to offenders. This, nominally, entails no change of policy but it would mean diverse instead of uniform tariff treatment of foreign nations.

(2) Adoption of an out-and-out policy of differentiation between foreign nations. This would mean a policy of bargaining for such advantages for United States exports as can be gained in terms of United States imports. It can mean also a policy of differentiation between products, a sort of protective exclusion, or benevolent admittance, of foreign products which respectively prejudice or benefit our own best economic advantage.

How It Looks From Paris

Looking at the whole situation from a distance as Americans in Paris are able to do, certain factors loom larger than they are likely to among Americans at home. The United States is a creditor nation. Its foreign assets aggregate $30 billions, if war debts are included. The only way they can ever be paid is by allowing the debtor countries to build up an export surplus.

The American market is the world's richest. It can absorb vast quantities of goods. Many products cannot be economically produced at home. Others need tariff protection in order to protect the American wage standard.

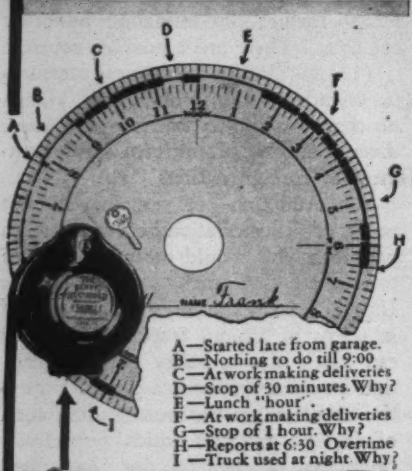
Americans abroad hope that the United States will meet the present situation in France firmly, but at the same time will steer toward an all-around tariff policy which is guided by 2 commonsense precepts:

Protection—and Latitude

(1) Protect with tariffs only those American products which can be produced or manufactured to the best advantage domestically, which importantly contribute to determining the general earning power of the American laborer.

(2) Grant the widest possible import latitude for those foreign products which lend themselves least to American methods of production, which compete least with those products whose tariff-protected production is essential to national welfare.

What's Your Truck Doing All Day?


A—Started late from garage.
B—Nothing to do till 9:00
C—At work making deliveries
D—Stop of 30 minutes. Why?
E—Lunch "hour".
F—At work making deliveries
G—Stop of 1 hour. Why?
H—Reports at 6:30 Overtime
I —Truck used at night. Why?

This Little Device Tells Every Move the Truck Makes

SEE THAT CHART? Those wide heavy marks show just when your motor truck was working, and how long. ¶ In between are blank spaces that show idle time. The result is a complete record, in fact a picture of just what your truck did all day and all night.

Save $500 per truck per year

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Now you can get 7 days' busy-idle record on a single chart without changing. When you lock the new 7-Day Recorder, you don't have to touch it again for a week! The coupon brings the whole story.

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Please send us, without obligation "10 Ways of Getting More Work out of Motor Trucks." Also information on the new 7-Day Model.

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Until Ottawa, Britain Will Do Nothing Final About the Tariff

Changes now being made are chiefly for bargaining purposes at the Empire Conference

EUROPEAN NEWS BUREAU—Britain's new tariff commission made its first really significant recommendations last week. Tariffs on 100 classes of articles were revised, effective Apr. 26. The timid 10% general tariff which marked Britain's entrance into the protectionist fold is already losing itself in a more "scientific," graded tariff.

The new rates announced from London affect importantly goods protected for the last 6 months in the 3 Abnormal Imports Acts, and iron and steel products. On some products, the new rates are higher; on many important to the United States, they are lower. In general, tariffs are increased from the original 10% rate to an average nearer 20%. Empire imports are still exempted from the new levies.

Revised duties are summarized, particularly as they affect United States imports:

Typewriters, under a 50% duty since last fall, now enter at 10%.

Electric appliances, until this week paying only a 10% duty, will henceforth pay 20%. Included also in the 20% rate are shoes.

In 1930, the United States sent about $700 millions of goods to Britain. About 2% of these came under the various Abnormal Imports Acts last fall. Another 45% have been subject to the 10% general tariff since Mar. 1.

Salient features to recognize in Britain's developing tariff policy:

(1) Despite vigorous clamoring from England's important iron and steel interests, broad protection was granted only this month, and then temporarily for a period of 90 days, or until the commission can complete further studies, make longer-term recommendations on a more scientific basis.

(2) Foods and raw materials are not included, though it is possible they will enter the duty lists prominently if at the Empire Conference London can strike satisfactory bargains to trade a preference for British manufactures in empire markets for a reciprocal preference to the dominions.

(3) Britain, in haste to fortify her bargaining position before the Empire Conference opens at Ottawa July 21, is still moving carefully, indicating to the dominions what can be theirs for the bargaining but also what they will lose if they are unwilling to offer returns.

(4) While the mass of the British populace seems pleased with the tariff policies (internal prices have not risen as yet and employment has risen well over 200,000 since this time last year) so far adopted, there is an important, if small, opposition. This may cause, shortly, a rift in the national coalition cabinet which may resign because it is overwhelmingly in the minority, and leave tariff policy to be vastly expanded by a Tory government.

(5) It is still too early to assume that Britain has "struck her pace" in tariff policy. Trends are pointed, but so far they are aimed particularly for empire consumption. The rest of the world cannot plot Britain's tariff course with any certainty until after the Ottawa confab and the dominions have declared themselves. It is entirely probable there will be radical changes announced from London early this fall. American exporters will do well to move cautiously.

Canada and New Zealand Get Together on Tariff

OTTAWA (*Special Correspondence*)—Trade of $35 millions annually between Canada and New Zealand shrank to negligible dimensions 2 years ago—part of it going to the United States at Canada's expense—because of strained relations arising out of Canada's boosting duty on New Zealand butter. It is expected to be restored by a new trade treaty now before the 2 parliaments.

Under this treaty Canada hopes to get back the New Zealand $7-million market for motor vehicles lost to the United States. New Zealand is restoring the benefit of its British preference tariff to Canada on these products, also on electrical goods, canned fish, newsprint and other papers, and rubber goods. Canada reciprocates by dropping the duty on New Zealand butter from 8¢ to 5¢, admitting hides and wool free, and granting lower rates on condensed and powdered milk.

Canadian Taxes Fall On American Business

OTTAWA (*Special Correspondence*)—Canadians have accepted without a murmur the heaviest tax burden they have ever borne. There has been no protest from the public, and the press of the whole country has approved. The new taxes designed to provide $55 millions additional revenue (which, if conditions do not get worse, will more than balance the budget) are regarded as a necessary evil.

In parliament opposition criticism has been confined to attributing the necessity for the increase to the government's high tariff policy. The agrarian group raises no objections but sees in the situation an opportunity to advocate nationalization of the banking system and the printing of new money to deflate the dollar.

Sales Tax Up 50%

Most of the revenue will come from the sales tax (raised from 4¢ to 6¢) and from income taxes, boosted about 30% throughout, doubled on lower incomes by decreases in exemptions.

The former war tax of 10% on sleeping and chair-car tickets and 5¢ on telegrams and long distance calls is restored, the stamp tax on checks raised from 2¢ to 3¢, and to 6¢ on $100 or more.

Considerable revenue will be collected on all imports regardless of the tariff by an increase in the special excise tax on all imports, which goes from 1¢ to 3¢. Imports from the United States, being heaviest, will carry most of the load.

Insurance Business Hit

One other levy hits an important kind of business between Canada and the United States. Insurance companies licensed to do business in Canada or which maintain deposits with the Finance Minister covering their liabilities to Canadian policyholders (life, marine, and farm mutual excepted in all cases) are assessed 1% on net premiums; policyholders in British and foreign companies which on Oct. 22, 1931, had no deposit must pay 15% on gross premiums to Canada's revenue and an additional 5% for each year 1921 to 1930 during which such company had no deposit.

Fire insurance on Canadian property is to a very large volume placed in United States companies, which maintain no deposits here or have no Canadian connection other than agents. It is desired to divert some of this business back to Canada.

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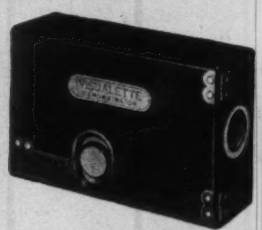

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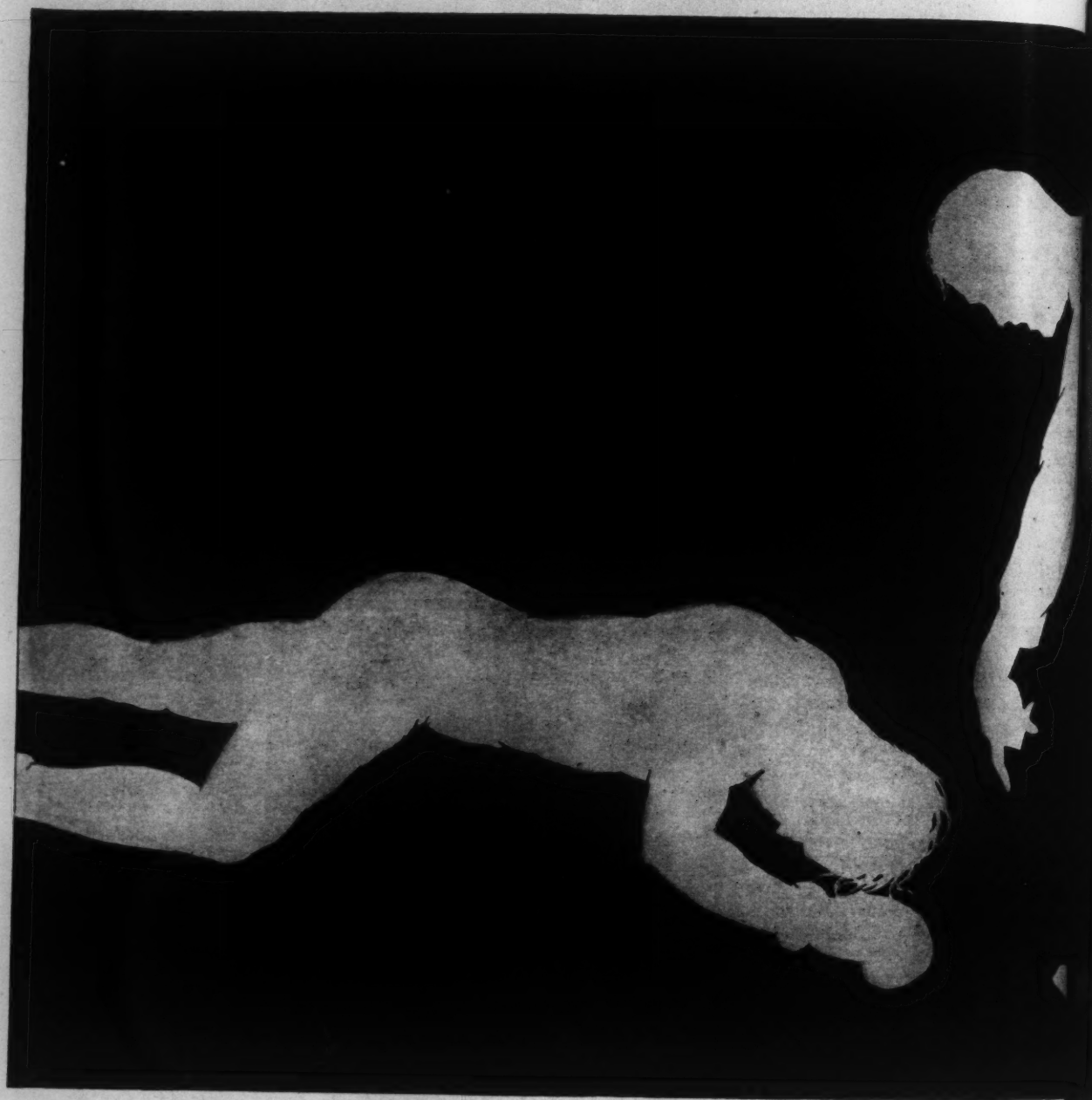

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Management Methods

Business Abroad—Swift Survey Of the Week's Developments

No really good news reported. . . . Britain suffered a slight setback while business swallowed the bitter pill administered by Chancellor Chamberlain. . . . French disintegration continues behind the thin screen of spring activity. . . . Germany is grim, losing ground. . . . Japan's aggression in the Far East is heaping coals on the fires of Chinese and Russian resentment. . . . Ineffectiveness of preliminary conferences weakens hopes for accomplishments at the Lausanne conference on reparations and debts.

Europe

EUROPEAN NEWS BUREAU (*Radio*)—Three outstanding developments dominated the European situation this week: the cut in the British bank rate (to 3%); the stern new British budget which brought no tax relief at all but which did bring some welcome tariff protection; and the Prussian elections in Germany in which Hitler's Nazis scored marked gains.

The prospect that the present drastic taxes will be continued at least for another 6 months and possibly longer has momentarily punctured British optimism, but *The Business Week's* London correspondent significantly points out that the cut in the bank rate (likely to be followed by a further cut soon), coupled with the government's plan for setting up an exchange stabilization fund to put an end to the violent fluctuations of sterling, mark organic steps which pave the way for the huge war loan conversion operations for which the country was preparing last year when the crisis came. When these economies can be effected, and when the tariff revenues get into full action, London believes there is a real possibility of budget revision with a lowering of the crushing income tax. The more sanguine look for a mid-year adjustment.

Scanning Europe as a whole, there has been another wave of price declines, caused, in large part no doubt, by tariff increases. The rates, though still low when compared with many countries, are especially significant because of the volume of business affected, and because of the fact that sterling is already fluctuating around 30% below its old level. We estimate that the new tariffs will affect $600 millions of trade (the U. S. share is roughly $98 millions). The degree to which trade is displaced is a fair index of the degree to which prices will be slashed in order either to vault the tariff or to find consumption in other markets. Nationally, Germany, Belgium, France are heaviest sufferers.

The results of the Prussian elections unquestionably have increased the possibility of the Nazis' gaining control of the administration of the Reich. Whether or not they gain outright control by one means or another, or whether they come into power indirectly through a coalition with the more moderate center parties, the election marks a definite dominance of Nationalist influence in Germany. This does not mean that there will be an arbitrary tearing up of the peace treaties, but it does mean that greater emphasis will be placed on the revision of those provisions which are irreconcilable with national equality, and with complete sovereignty. And domestically it means an increased trend toward Fascist *vs* democratic organization of Germany's economic structure. It is inevitable, however, that the next month's agitated political maneuvering in Germany will increase the difficulties of many now-pending negotiations.

For the first time this year the situation on the Continent, outwardly at least, improved in the face of slackening activity in Britain. The British situation is still relatively better. Britain welcomed the relapse of sterling as moving in the direction most likely to stimulate exports. With stabilization already planned there is small fear of the trend getting out of hand.

Germany

Industrial conditions are grim, the outlook gloomy. . . . Election results had been previously discounted. Period of increased uncertainty inevitable. . . . Unemployment decline too small to be helpful. . . . Money easy; discount rate reduced to pre-panic level. . . . Imports to be cut again. . . . Only the bicycle industry booming.

BERLIN (*Cable*)—There was no significant development in Germany this week to brighten the outlook of even the most sanguine unless it was the lack of reaction to the Hitler success in Prussia, which already had been completely discounted at home. Lacking a majority, the Nazis, unless they can effect a coalition with some other party (page 29), are likely to stir up considerable unrest in coming weeks which will react unfavorably on German business and on vastly important developments at Lausanne and Geneva. The Nazi gains in Prussia are adequate evidence that Germans still are flocking to the party which promises most speedy relief from the present desperate economic situation.

Reichsbank Cuts Discount

The most significant development of the week was the reduction of the discount rate to 5%, the first time it has touched this low level since the panic last summer.

Unemployment declined 100,000 during the first half of April and is now nearly 200,000 below the mid-March level, but this is so far below the normal spring pickup it has offered small comfort either to industry or to the government.

Production Declines

The decline of production in the basic industries continues unabated. In March pig iron output fell further by 11% and steel production by 2.9%, both compared with the preceding month.

Sales of electric current also continued their decline with February figures 14% off those for the corresponding month in 1931.

According to the latest estimate of the Bureau for Business Research, the volume of building in the season 1932 is not likely to exceed RM 2 billions, as against the already reduced figure of RM 4 billions in 1931.

There is in Germany at least one industry which is experiencing a regular boom. That is the bicycle industry, where dealers' stocks are cleared and fresh demand is brisk. One of the explanations offered is that those who used to buy automobiles are now buying bicycles.

Imports Curtailed Again

Realizing that the only way in which Germany can maintain a favorable balance of trade, necessary if foreign service obligations are to be met, is to cut imports to the bone, the government has reduced again the quota of foreign exchange to be allotted to importers. Beginning in May, the quota is reduced to 50% of normal. This compares with 55% in effect the previous 2 months, cuts below the level at which many

Germans believe it is economically wise to cut if an adequate supply of foodstuffs and raw materials for industry are to enter the country.

The situation in industry is grim, the outlook gloomy.

France

Thinly drawn-out spring recovery hides further fundamental economic disintegration. . . . Unemployment down; consumer trades brisker. . . . Rail receipts, government revenues, foreign trade decline. . . . Public responds well to Land Bank issue. . . . Important Chamber elections next week.

PARIS (Cable)—A thin crust of seasonal recovery is hiding true conditions in French industry. The lighter industries last week continued to absorb small numbers of workers, and a spurt of business in the consumer trades promises to continue the trend for a time.

The competent Frenchman, however, is watching other factors as well. Rail receipts, up sporadically a few weeks ago, are again off. Foreign trade is very unsatisfactory. Exports are down, and declining further; imports, despite all the quotas, have failed to contract proportionately. Government revenues, which have been falling gradually, are now falling away at an alarming rate. The March sales tax return, which can be taken as a fair index, was 22% below the total for last year. Internal prices are rising.

Good Investment Interest

Perhaps the most encouraging development of the week was the prompt response of the public to the Land Bank issue of $66 millions. Special significance is attached to public reaction because 3 important issues are pending: part of the National Equipment Program issue, $140 millions; the Algerian loan of $96 millions; and $132 millions of railway bonds.

Sentiment during the week was influenced particularly by 3 developments:

(1) Hitler's success in the Prussian elections, and the fear in France (encouraged by electioneering politicians) of an anti-reparations campaign in Germany;

(2) Growing anticipation that relief for Central Europe is going to be too late to save some of the countries from financial collapse, with the result that there will be repercussions in creditor countries;

(3) Acknowledgement in speculative financial circles that Britain's determination to set up a fund to protect sterling from excessive fluctuation due to speculation will put an end to some profitable business and, probably, put an end to France's hopes that the British might be urged into stabilization of the pound at higher levels than now seems likely.

These 3 factors account for the decline in sterling on heavy French selling.

French elections are scheduled for next week. While many changes may occur, it looks now as though the next government would be a concentration cabinet headed by Herriot, with Tardieu (and Laval) as second in command. Such a cabinet would best suit present domestic and political necessities in France. As to foreign policy, debts and reparations, nothing would be changed from the present, except that, granted the inevitability of "sacrifices," such a cabinet would be able to go further in the way of such sacrifice without arousing public opinion than either a markedly Right or Left cabinet.

Great Britain

Trade is improving. Morale is stiffened by tariffs. . . . Stock market fails to respond to lower bank rate. . . . Conversion operations again anticipated. . . . Sterling weak. . . . Lausanne and Ottawa conferences hold prime interest.

LONDON (*Cable*)—Ambassador Mellon sized up the British situation for British and Americans alike last week when he said: "I have been impressed, even in the short time I have been among you, with the feeling that you have turned the most difficult corner and that the situation is in hand."

Perhaps because of the shock which the sternness of the budget caused the City, business, for its own reassurance, pulled out of the recent speech by the respected president of the Board of Trade to the Commons, a few concrete evidences of recovery, listed them briefly:

(1) Britain's adverse balance of trade was £110 millions under the former government. The Nationalist government in 3 months reduced imports by £15 millions, compared with the same period a year earlier.

(2) In reducing the adverse balance, the government has concentrated on keeping out manufactures that can be

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made in Great Britain. The home market, for example, has been given almost entirely to the woolen and cotton industries. Since last September, the number of unemployed in the textile industries out of every 100 men has been reduced from 38 to 20.

(3) In Greater London there are 30 new industries; in Lancashire and Yorkshire (textile, coal and iron distressed areas) there are 5; in the Midlands (coal and pottery areas) 6, and in other areas 2. This makes a total of 43. Seventy British manufacturers are making extensions under the advice or guidance of foreign experts. In 43 of these factories, production has already started. The industries covered include knit-wear, furnishing fabrics and other textiles, clothing, metal trades and electrical apparatus.

(4) The country's export position is particularly encouraging. From the fall of 1929 to August, 1931, there was a continuous decline in Britain's export trade. It actually fell one month as low as £29 millions, or about half the previous year's total. Since August there has been an increase to £31 millions, and this in spite of declining prices.

Crisis Definitely Ended

More immediately London has been influenced only mildly by developments, significant as they have been. The cut in the bank rate to 3% had been discounted for some weeks and had small immediate effect. It conclusively marks the end of the crisis, inaugurates a period of really cheap money, though even at this new rate it is ineffective so long as market rates continue a full 1% below it. Investors anticipate a further cut in preparation for the long-awaited conversion operations which the government is now likely to urge as an economy measure which can be readily handled as general conditions continue to improve.

The India loan of £10 millions, while it checked the recent advance in Indian securities, was taken up in little more than an hour, indicating the sustained interest of the investing public in high grade issues. Industrial stocks were quiet though slightly firmer.

The drain on sterling, due to heavy selling by the French, only accentuates the necessity for prompt carrying out of the new government proposition to utilize £150 millions to carry on foreign exchange operations in order to prevent such drastic fluctuations of the pound. The weakness caused little apprehension in London because it is known that the City quite generally expects the pound to stabilize considerably below the figure at which it has been quoted of late.

Conditions remain relatively good in Britain. Above everything else, as far as long-term business trends are concerned, Britain is concentrating on Lausanne and Ottawa. In them Britain is placing great hopes for the settlement of many knotty problems.

Far East

Japan forges ahead in Manchuria. Bank of Korea makes loan to new Manchurian government. . . . World's largest silk sale disposes of Japan's indemnified stocks to Americans.

PEOPLE in the Western world should not be misled by the presence in the Far East of an investigating committee from the League of Nations. Nor by the steady, and not too tardy, withdrawal from Shanghai of Japanese troops. The trend which started last September when Japanese and Chinese troops had their first skirmish in Manchuria is unswervingly in the same direction now. China having been unable to pull herself together in time to develop the region under her own control, Japan has stepped in to do the job. The methods of handling the job fail to meet with approval among Japan's more stable population, though it is doubtful if a more conservative government, if it comes into power in Tokyo this year, would go so far as to give up Manchuria. Japanese exploitation of this area has been a dream for too many years. In making plans for the future, Western business should recognize these conditions.

Tokyo Tutors Manchuria

Developments during the week brought further proof of this trend. In Changchun, which has been designated the capital of the new Manchurian state, 4 key positions in the new government went to prominent Japanese. The Ministries of Finance, Foreign and Domestic Affairs, and the Provincial Police are in their control. Japanese troops are being reinforced to maintain order throughout the area until local police can be organized. If League interference continues, it is probable that Japan will withdraw. Tokyo has already given the warning.

To meet requirements for new expenditures in the region, the Bank of Chosen (Korea) has authorized a loan of about $7 millions to the new Manchurian government.

The most significant development of the week in Japan was the sale to E. Gerli & Co., in the United States, of the government's complete stocks of surplus silks which have been accumulating for more than a year. The deal covers more than 107 thousand bales of silk for which the Gerli interests are said to have paid $16,230,000.

Silk Restriction Collapses

The deal marks the collapse of another marketing restriction scheme. As long ago as 1915 Japan aided its silk exporters in sustaining silk prices by withdrawing large stocks from the market. The plan worked, though European exporters made large inroads on the American market.

A subsequent plan also worked to the advantage of Japan, but in the last 2 years since the depression the demand for silk in the United States, Japan's major market, has declined so rapidly and consistently, and the prices of commodities in general have fallen away so conspicuously, the Tokyo government found itself holding the sack without bringing any real relief to the industry. Silk prices have declined steadily while surplus, indemnified stocks were piling up in Japan.

Loss of $19½ Millions

Sale of the silk at $150 a bale means a loss to the Japanese of nearly $19½ millions when compared with prices paid to local producers, but a part of this will be recovered in taxes on the reelers.

The deal has brought relief to the market in Japan and America. The vast surplus stocks are no longer a cloud over the market. Only a part of the surplus will be distributed in the United States, and that gradually. The balance will be marketed in Japan and Europe. And Japanese cocoon raisers, if they adhere to their curtailment schemes adopted last year, should keep more consistently within market demands.

Latin America

Brazil and Argentina comparatively favorable; Chile and Bolivia show further signs of economic stress. . . . Mexico favors domestic industry. . . . Colombia viewed more hopefully at home than abroad.

ARGENTINA and Brazil continue to show most persistent signs of having touched bottom in the present depression and being at least on the way to recovery. Even in these countries, however, recovery cannot come until prices rise.

Chile, on the other hand, and Bolivia are not improving. Chile has definitely abandoned the gold standard. The Central Bank is attempting to fix peso exchange daily at a rate near 16.49 pesos to the dollar, but the bootleg market still flourishes, and offers 25 pesos. Artificial pegging is not likely to be successful.

Political Unrest in Chile

There is growing concern in Santiago over the political activities of former-President Alessandri and the possibilities of political unrest in the future.

Europe is securing a larger percentage of Chile's foreign orders on the basis of an exchange of merchandise for Chilean agricultural products. American exporters who still are carrying on trade with Chile should require reimbursement coverage prior to shipment because of the stringency of the new exchange law.

Bolivia, due to its depleted markets for tin, has authorized the Central Bank to suspend for 2 years the sale of foreign drafts except to cover payment on necessary imports. This is to prevent the exodus from the country of surplus funds.

Bolivian Business Slack

La Paz reports that business conditions during April have failed to show any improvement. Stocks continue low and the purchasing power severely curtailed. Merchants and bankers are continuing to follow a policy of caution and retrenchment.

Mexico is continuing its somewhat futile efforts to encourage national industry. Films and phonograph records are the latest products to come under a heavy import tariff. Only imports from Spain are exempted.

Another evidence of closer relations with Spain is the rumor from Madrid that the Spanish government will trade a number of small gunboats to Mexico for petroleum, sisal hemp, cotton and beans.

Mexico Has Fewer Jobless

Unemployment at the end of March had declined to 200,000 from a total in December of nearly 221,000.

Despite the weakness of demand abroad for Colombia's mild coffee, and the effect on the export and foreign exchange market, sentiment at Bogota was less pessimistic last week. In part this was due to the prospect of public works getting under way at the mouth of the Magdalena and at Cartagena. The increased demand for bananas has, according to the Colombian Cable & Air Mail Weekly Service, revived activity at Santa Marta.

What's wrong with Municipal Financing?

In too many cities today, public works are being stopped as a *first* economy move. Why? Is this hysterical slashing of public works programs, regardless of the efficiency of service rendered, sound from an economic standpoint? Will new unemployment, further cutting of consumer buying power help business?

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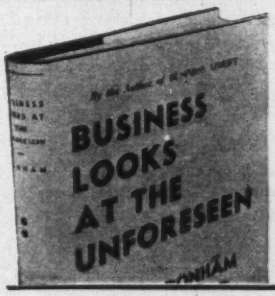

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The Figures of the Week And What They Mean

A steady gain in miscellaneous and less than carlot freight together with a sharp improvement in the volume of public works and utility contracts awarded and the first expansion of commercial loans in many months constitute the outstanding items of cheer in the week's figures. . . . Steel operations are expanding, but painfully slowly as motor centers continue cautious. . . . Electric power production continues to contract in the usual seasonal manner. . . . Check payments remain at a low level. . . . Currency circulation reflects the improvement in general banking conditions.

IN spite of the extensive hopes lavished on the automobile industry as the coming salvation of steel, little change is apparent in the rate of activity of the industry as a whole. Most estimates this week agree that a slight upward trend occurred which raises the rate to about 23% of capacity. Since this increase is contrary to the usual trend of operations in April, the adjusted index moved upward 2 points to 31% of normal.

Automobile Orders

The general slackness of all business activity remains the chief handicap of steel. As long as employment and payrolls continue to shrink, the motor industry will have more than an uphill climb to gain orders. Reports of their recent drives would appear to indicate that their efforts were crowned with considerable success, but the cautious production schedules which have been adopted seem difficult to reconcile with such sales. Detroit employment on Apr. 15 stood at 63.6 compared with 68 on Mar. 15. In the past week, the Chrysler division contributed the chief gains to output, while Chevrolet made a slight gain and Ford remained unchanged. Preliminary reports on March sales compiled by R. L. Polk & Co. indicate a 13% gain over February on passenger cars and a 21% gain on trucks.

But the trade journals continue to maintain an optimistic note on the prospects of motor orders to come, feeling sure that Ford will swing into a 2000-cars-a-day schedule in May. Volume orders for sheets, strip, and fender stock for Ford cars are said to have been specified in volume this week for the first time, though the tonnage figure was not reported.

The prospects for a little better business from the structural steel field is also mentioned, particularly as public works activity swings into line. According to F. W. Dodge, this branch seems most fruitful at present. The Hoover Dam project is expected to bring out pipe inquiry soon. Some other pipe inquiry is being held up by financing difficulty.

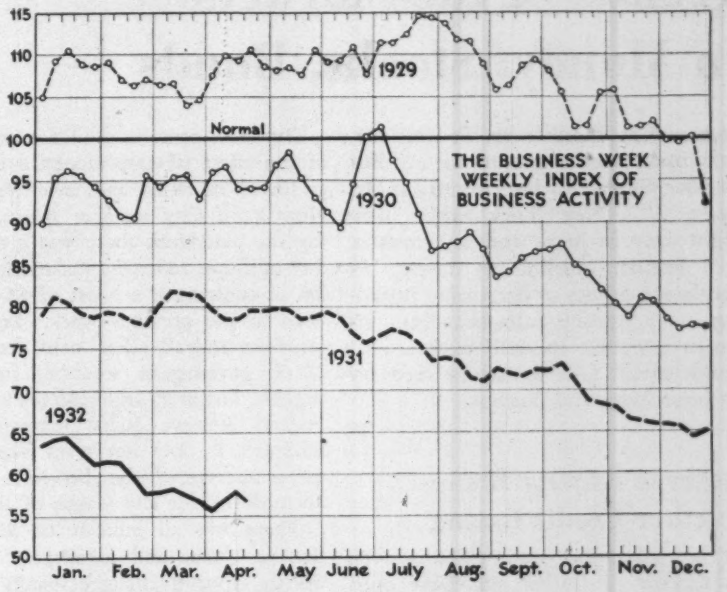
Tin plate operations are around 50% of capacity, but it is not expected that much more than this will be achieved. Consumption of canned goods has been affected by the depression. Here too, the desire of banks to cut down credit lines has hampered canners in making steel commitments. Rail inquiry is still light, but promises a little expansion.

THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	*Latest Week*	*Preceding Week*	*Year Ago*	*Five-Year Average (1927-1931)*
	*57.0	†58.6	79.5	.....
PRODUCTION				
Steel Ingot Operation (% of capacity)	*23	22	48	79
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$4,322	$4,199	$13,164	$20,992
Bituminous Coal (daily average, 1,000 tons)	*825	†774	1,054	1,310
Electric Power (millions K.W.H.)	1,470	1,481	1,676	1,586
TRADE				
Total Carloadings (daily average, 1,000 cars)	94	91	127	152
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	65	64	90	104
Check Payments (outside N. Y. City, millions)	$3,298	$3,071	$4,680	$5,493
Money in Circulation (daily average, millions)	$5,442	$5,450	$4,645	$4,675
PRICES (*Average for the Week*)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.54	$.55	$.73	$1.13
Cotton (middling, New York, lb.)	$.062	$.062	$.100	$.164
Iron and Steel (STEEL composite, ton)	$29.74	$29.74	$31.49	$35.01
Copper (electrolytic, f.o.b. refinery, lb.)	$.055	$.055	$.093	$.135
All Commodities (Fisher's Index, 1926=100)	61.8	62.4	74.0	90.6
FINANCE				
Total Federal Reserve Credit Outstanding (daily average, millions)	$1,729	$1,670	$933	$1,156
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$19,119	$19,058	$22,987	$21,993
Commercial Loans, Federal Reserve reporting member banks (millions)	$6,838	$6,822	$8,001	$8,639
Security Loans, Federal Reserve reporting member banks (millions)	$5,131	$5,148	$7,138	$7,124
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	$495	$504	$1,730	$3,740
Stock Prices (average 100 stocks, Herald-Tribune)	$82.25	$82.36	$125.78	$153.65
Bond Prices (Dow, Jones, average 40 bonds)	$76.16	$75.33	$95.26	$96.30
Interest Rates—Call Loans (daily average, renewal)	2.5%	2.5%	1.5%	4.5%
Interest Rates—Prime Commercial Paper (4-6 months)	3½-3¾%	3½-3¾%	2½-2¾%	4.2%
Business Failures (Dun, number)	663	653	612	491

*Preliminary †Revised

The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures —steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



Prices on most lines have held fairly well, and the expectations are that the poor first-quarter results will add to the incentive to hold prices. Motor car makers are persistently attempting to break current quotations. Finished steel prices are holding, but have not been subjected to severe pressure. Scrap prices reflect some weakness.

Contracts Awarded

Contracts awarded for public works and utilities through Apr. 22 show some redeeming improvement compared with the very poor showing of March. Over $35 millions have been awarded this month which already exceeds the entire month of March. On a daily average basis, the gain is 67% over March, 64% below a year ago.

Non-residential awards rank next in volume with $32.7 millions, but the daily average now runs nearly 6% below the preceding month and 58% under last April. The greatest shrinkage occurred in the residential group where less than $20 millions of contracts appeared. This represents a loss of nearly 15% from the March daily average and 72% from a year ago.

Total awards this month now stand at $87.7 millions, which is a gain of 11% over the March daily average, but more than 64% below a year ago. The adjusted index for the 4-week period ending Apr. 22 stands at 22% of normal compared with 21% the preceding 2 weeks.

Bituminous coal production turned upward again after the sharp drop of the preceding week of Apr. 9. The adjusted index stands at 48% of normal compared with 44% the preceding week. Anthracite production again passed the million tons a week mark.

The sharp decline in electric power production compared with a year ago gives a blacker hue to the week's figures than they merit. The spread to 12.3% against 9.8% a week ago was due more to the unexpected bulge a year ago than to any particular worsening of the present situation. As in the past weeks, the central industrial region shows the greatest losses since steel and motor centers reflect no marked quickening of activity. The adjusted index remains unchanged at 73% of normal.

Coal and miscellaneous freight shipments were the chief boosters of carloadings during the week of Apr. 16, but the modest March peak has not been surpassed. The combined total of miscellaneous and less than carlot freight has been pushing gradually ahead into new high ground. The adjusted index rose one point to 57% of normal.

Check Payments

Check payments in the 140 cities outside of New York made a small gain during the week of Apr. 20, but the total volume of checks of the past 2 weeks has hovered in low ground. Hence the adjusted index declined to 65% of normal from the 71% of the preceding week.

Daily average currency outstanding during the week of Apr. 23 declined some $8 millions, but our adjusted index remains unchanged at 47% above normal. Bank suspensions continue at a low level, with 11 closing during the week of Apr. 21 and 9 the preceding week.

The first encouraging sign of credit expansion resulting from the activity of the Reconstruction Finance Corp. appears in the rise of commercial loans during the week of Apr. 20. This marks the first reversal of the persistent downward trend since last November. The bulk of the rise took place in the New York district where the expansion totaled $45 millions. The adjusted index rose to 9% above normal compared with 7% the preceding week.

Commodity Prices

Commodity prices as a whole continue at practically the same level as a week ago. Rubber and coffee have made small gains, the former on news of curtailed production in the Dutch East Indies. Cocoa was irregular, and sugar weak. Corn prices declined steadily, while wheat fluctuated within narrow margins.

Cattle and hog prices were weak, but hides improved. Wool prices continued to decline, while cotton made a mild recovery. The silk market received news of the abandonment of the silk control plan by the Japanese government. Over 100,000 bales were sold to the president of the Silk Association of America at the lowest price ever recorded on the Tokio exchange.

Non-ferrous metal markets showed no marked changes. Copper was steady at 5¾¢ delivered. Lead prices and sales were well sustained. Tin, silver, and zinc prices weakened.

Trends of the Markets In Money, Stocks, Bonds

Tremendous increase in Federal Reserve open market operations. . . . But member banks still hesitant to expand credit. . . . New York banks show slight drop in loans and investments. . . . Further decline in money in circulation points to decreasing hoarding. . . . Sterling falls sharply. . . . Stocks irregular in dull market. . . . Bond market fails to resume recovery on poor industrial outlook.

Reserve Buying Brings Further Credit Easing

CREDIT relaxation continued this week as a result of further aggressive open market operations by the Federal Reserve System. However, there are not as many signs as last week that the expansionary program, inaugurated late in February and pushed with increasing vigor in recent weeks, is making progress.

Government securities purchased aggregated $113 millions, accompanied by substantial decreases in member bank borrowings. Total reserve bank credit was up, a favorable sign. Member bank reserves were up, reflecting increased deposits. Money in circulation was down, indicating less hoarding.

The most concrete evidence available of the effect of easy money operations is found in loans and investments of New York City member banks. During the past week there was a drop of $43 millions, reflecting deflationary policy, in contrast to a boost of $148 millions in the previous week. Loans on securities and all other loans decreased. U. S. government securities increased slightly, however, and reserves with the Federal Reserve Bank jumped $125 million. It does not seem likely that excess reserves will be allowed to remain unemployed for any length of time.

There was an increase of $61 millions in loans and investment for all weekly reporting member banks during the week ended Apr. 26. This gain compares with an average weekly decline of $109 millions since Sept. 30. Loans for account of others, mostly business loans, increased $16 million, marking the first gain since Nov. 25. Investments in other than government securities and demand deposits increased.

Sterling declined during the week, wiping out a substantial part of a previous gain due to speculative purchases from Holland. In view of the creation of the £150 millions equalization fund, it is doubtful if the rate will even be held at current levels.

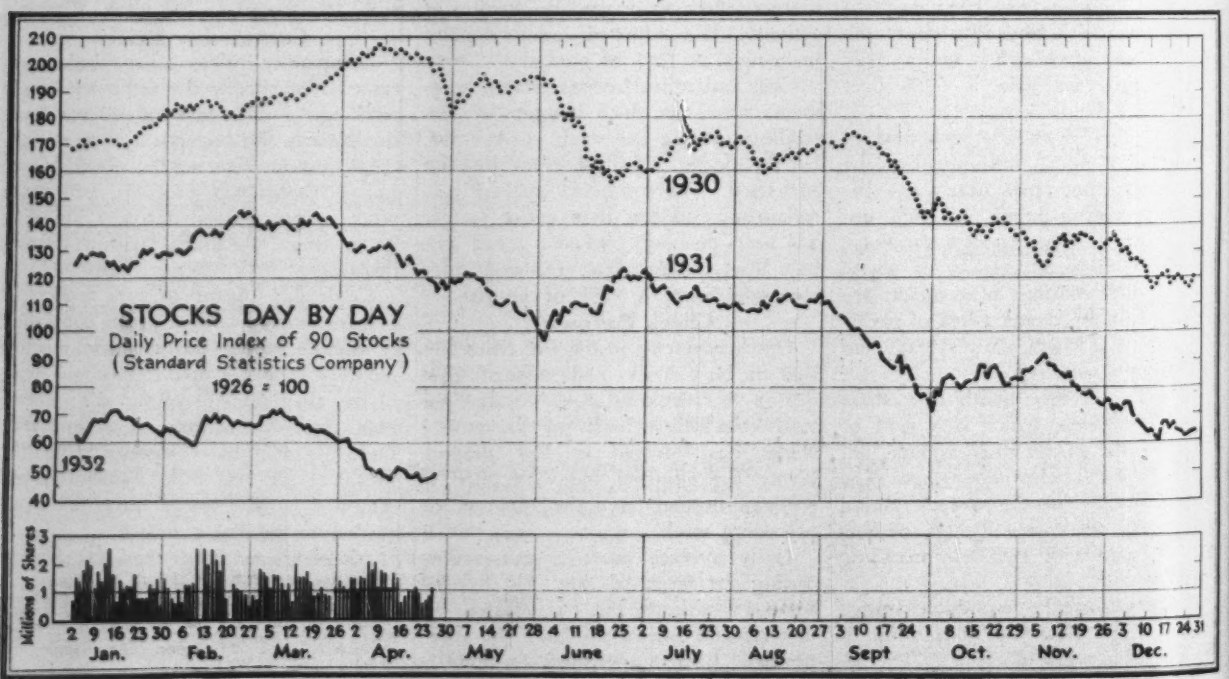
The Reichsbank reduced its discount rate from 5½% to 5%, the third reduction in less than 2 months. It is hoped that industry and trade will be stimulated. The reduction in the Bank of England rate last week lightened the strain, permitting reduction without risking foreign drain. Deposit figures of leading Berlin banks showed an increase for the first time since last summer.

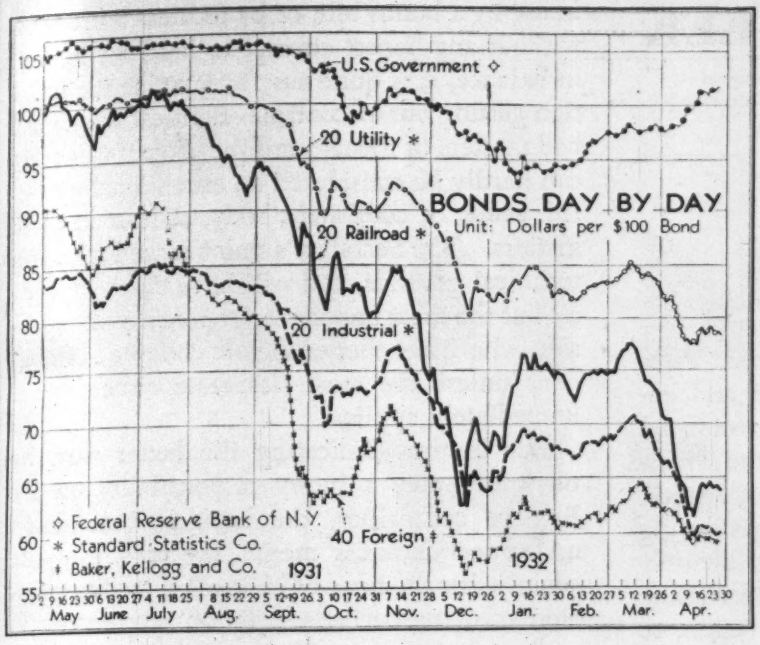
Time money eased further in response to the Administration credit program. No additional reductions in bill rates were made during the week. The fact that call money was not offered below 2% seems paradoxical in view of excess banking reserves. Commercial paper was down slightly.

Greece abandoned the gold standard, the first nation of Central and Eastern Europe to do so. Depressed trade, combined with cessation of foreign lending, has played havoc with the reserves of the Bank of Greece.

Rail Stocks Star In a Dull Show

A GENERALLY firmer tone was evident in a dull stock market during the first part of the week, reflecting mainly the absence of heavy liquidation. Prices moved in a narrow range, with the trend gradually upward. Then the movement reversed itself when, under the influence of short-term profit-taking, more selling came into the market.





Much of the dullness in the first part of the week was ascribed to the uncertainty surrounding the U. S. Steel dividend meeting, though almost everybody was agreed in advance on what the outcome would be. It was, therefore, no surprise when the common dividend was omitted—for the first time since 1915—and this action exerted little adverse influence on the market. With the Steel meeting out of the way, trading expanded somewhat and prices made an additional small gain, but renewed dullness soon set in causing quotations to weaken.

One Bright Spot

Considerable attention was attracted this week by the continued firmness of the railroad shares. The strength of this group, which provided the brightest spot in the market, was based in part on the further, though seasonal, improvement shown by the weekly carloading figures, and the more favorable earnings reported by different carriers as a result of reductions in operating expenses. Declaration of regular dividends by the Norfolk & Western and the Delaware & Hudson also had a stimulating effect, despite Pennsylvania's dividend deferment.

Considering the market's recent display of firmness, it is felt that a sharp rally could be brought about on announcement of some real constructive news. But it is considered doubtful if such a rise could be sustained until industrial activity shows definite signs of recovery and some of the political uncertainties are removed.

Governments Alone Seem To Stir Bond Buyers

THE bond market spent a dull week. Except for the U. S. government issues, the trend was irregularly downward.

Normally, an easy money policy, such as the Federal Reserve System is now pursuing, would have a favorable effect on bonds, so that the market's failure this week to resume its recent recovery indicates that it was influenced largely by the existing industrial uncertainty.

Government obligations continued to improve their position, reaching new high levels for the year. The big demand for the new tax-exempt Treasury and New York State issues, far in advance of their dated offering, was a favorable factor, as was the news of steps to speed up House action on the omnibus economy bill.

Utilities Affected

The other sections of the market were irregular and extremely dull. Utility issues were adversely affected by the poor showing of the weekly electric power output. Carrier bonds exhibited alternate rallies and weakness, depending on whether railroad news was good or not so good. The industrial list also was jumpy, reflecting poor quarter earnings, dividend omissions and general concern about the immediate future. The foreign government bond section continued to maintain a very dull course.

The downward tendency of the bond market became more pronounced toward the end of the week, as the railroad issues began to react more sharply.

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THE BUSINESS WEEK

The Journal of Business News and Interpretation

May 4, 1932

A Good Point

MR. MILLS' speech before the Associated Press this week was the second significant and encouraging utterance of this sort from an official source since he became Secretary of the Treasury. In it he reiterated the fundamental truth, so frequently pointed out in these pages during the past two years, that recovery is possible only by a restoration of the amount of purchasing power in use before the depression began, so that the value of the dollar may be lowered, prices of commodities, securities, and labor raised, and debt burdens made bearable.

Recognition of this by so responsible and public-spirited an authority in the Administration is reassuring; but the problem that perplexes him and many others who understand the necessity is how to bring about this indispensable reduction in the value of money.

On this question he made a good point in his latest speech. Admitting the imperative demand for inflation in this sense of the word, he emphasized that it could be effective for recovery only if it were accomplished without destroying business confidence; and this could be counted on only if the inflation were closely controlled. That is why he said it is most important for the responsibility to be put upon the Federal Reserve system and not left in the hands of Congress. That is why, in turn, he insisted it would be far less dangerous for it to take the form of credit expansion rather than that of currency inflation.

In the first case the Federal Reserve system, being constituted of the commercial member banks, would have a direct interest as debtors in seeing security prices improved and business profits restored, but also an even greater interest as creditors in preventing too large a depreciation in the value of money.

If Congress were to assume the responsibility for adding to the amount of purchasing power in use by a bonus bill, or by reckless borrowing without any honest attempt to hold the budget in balance, it is quite easy to imagine the inflation getting out of control. Political bodies are bad masters of money, and the present Congress can hardly be considered an exceptionally careful, acute, or competent body, at least in these matters. The Secretary's point is well taken on technical grounds, and will have the support of all but the most impatient proponents of expansion who insist that economic collapse is imminent unless the most desperate remedies are immediately applied.

But in thus indicating the better way, he obviously puts a heavy responsibility on the Reserve authorities, the banking community, and upon business men. He tells us quite plainly that the issue of controlled credit expansion vs. direct currency inflation is up to us. In order to control credit expansion some of it must first take place. If the Federal Reserve authorities fail to continue their open-market operations with persistence and courage, the member banks will not be induced to expand their loans and investments. If the member banks are unwilling to expand, business cannot. If business men are unwilling to borrow, the banks can do little. If all these things happen, then we may have a real problem of control on our hands—the problem of controlling a Congress compelled to resort to direct inflation devices.

But it is obvious that even Congress is reluctant to take the job. It has just reported out of House Committee a bill which commands the Federal Reserve system to do it. Thus the buck is being passed back to the banks and business, and as Secretary Mills explained, it is the best way after all, if we can carry it through.

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